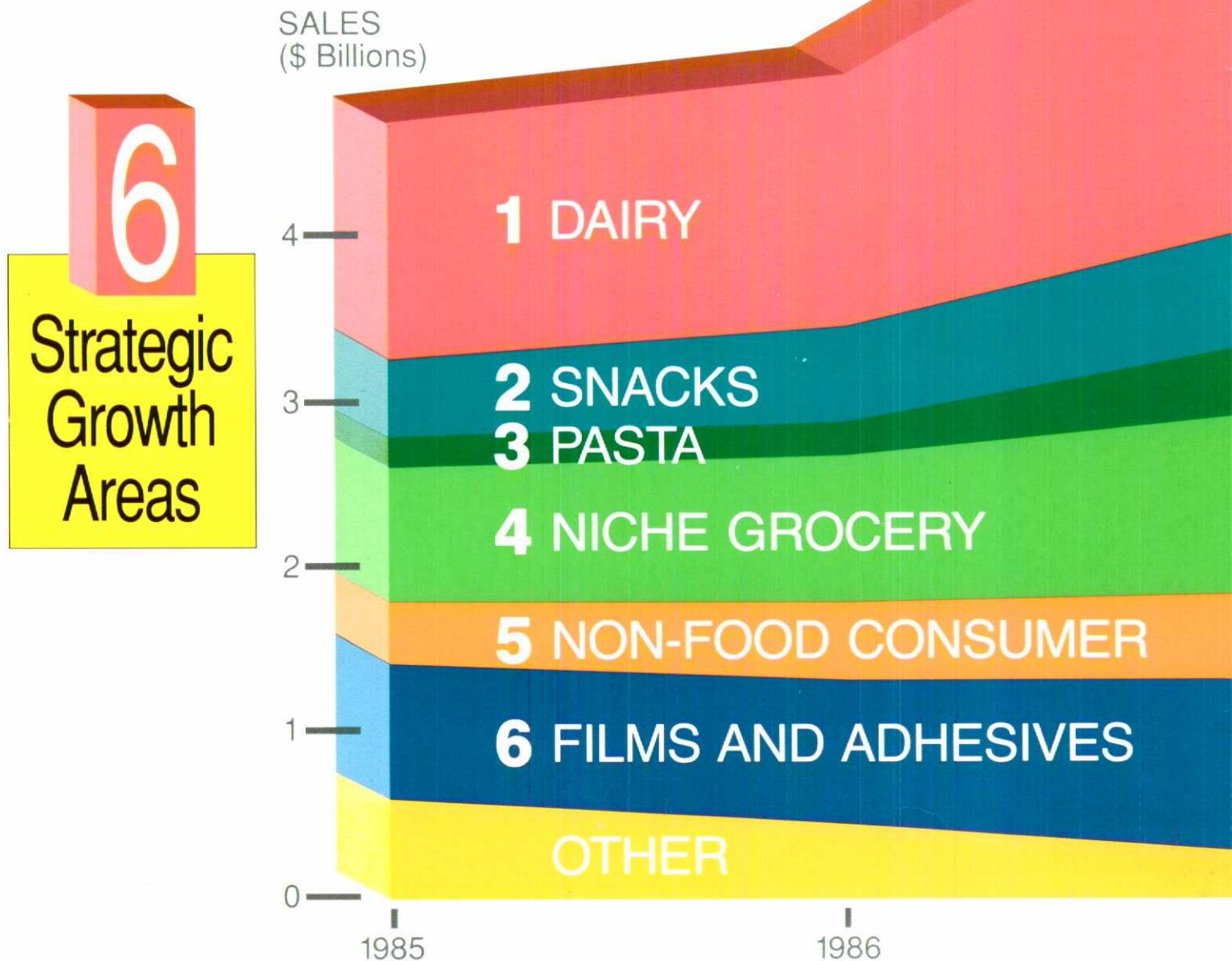


Internal business development spurred by accurate acquisitions has sharply raised sales and profits over the past three years.



Principal Borden Products by Brand

Dairy

Borden whole, lowfat, skim and chocolate milks and buttermilk; cottage cheese, sour cream, whipping cream and other creams; egg nog; orange juice; fruit drinks
Hi-Calcium lowfat milk
Hi-Protein lowfat milk
Light sugar-free lowfat chocolate milk and nonfat yogurt
Lite-line milk, cottage cheese, sour cream and yogurt
Thirstee Smash fruit drinks
Borden ice cream and frozen novelty bars, sandwiches and pops; sugar-free frozen novelties
Eagle Brand ice cream
Lady Borden ice cream
Light ice milk
Cracker Jack, Frostick, Mississippi Mud, Juice Stix and **Glacier Bar** frozen novelties
Meadow Gold whole, lowfat, skim and chocolate milks and buttermilk; cottage cheese, sour cream, whipping cream and other creams; egg nog; orange juice; fruit drinks
Mountain High yogurt
Viva lowfat and extra-calcium milks, protein-fortified skim milk, cottage cheese, sour cream and yogurt
Meadow Gold ice cream and frozen novelty bars, sandwiches and pops
Light ice milk
Olde Fashioned Recipe ice cream
Turtles frozen novelties
Viva sugar-free frozen novelties

Regional:

Borden citrus punch (Florida)
Hotel Bar butter (New York)
Keller's butter (Philadelphia)
KLIM whole milk powder (New York)
Louis Sherry ice cream (New York)

Puerto Rico:

Nevada and **Carnaval** ice cream

International:

Worldwide export – **KLIM** whole milk powder
 Bahamas and Costa Rica – Milk, ice cream and other dairy products
 Colombia – **KLIM** and **El Rodeo** whole milk powder
 Japan – **Lady Borden, Lady Borden Excellence** and **Borden Home Made** ice cream; **Borden** margarine
 Panama – **KLIM** whole milk powder; **Borden** ice cream, cheeses, juices and nectars



Snacks

Borden cheese puffs, corn snacks and pretzels (canister)
Ranch Fries snacks
Krunchers! potato chips
La Famous tortilla chips and dips
New York Deli potato chips and other snacks
Seyfert's pretzels
Wise popcorn, dips and other snacks
Bravos tortilla chips
Cheeze Doodles corn puffs
Cottage Fries potato chips
Pick Ups single-serve snacks
Ridgies rippled potato chips
Spirals crispy corn snacks



Regional:

Buckeye potato chips (Ohio)
Clover Club potato chips and other snacks
El Molino and **Little Pancho** tortillas, chilis, sauces and spices (Mountain/Western)
Crane potato chips (Illinois)
Geiser's potato chips and other snacks (Wisconsin)
Guy's potato chips, nuts and other snacks (Midwest)
Jays potato chips, popcorn, other snacks
O-ke-doke cheese-flavored popcorn (Illinois and Great Lakes)
Laura Scudder's potato chips, nuts, other snacks (California, Arizona, Nevada)
Red Seal potato chips, **El Dorado** corn and tortilla chips, and **Barrel 'O Fun** snack products (Mountain)
Seyfert's potato chips, nuts and other snacks (Indiana and Michigan)
Snacktime pretzels, popcorn, dips and other snacks
Cain's, Chesty, KAS and **Kitty Clover** potato chips
Cornies cheese puffs
Indian Brand corn chips
Pepitos and **Tor-ticos** tortilla chips (Midwest)
Wise potato chips and other snacks (East Coast and Texas)
Dipsy Doodles rippled corn chips (East Coast)

Puerto Rico:

Filler potato chips and other snacks

International:

Belgium – **Suzy** waffles
 Canada – **Humpty Dumpty** potato chips and other snacks
 Ecuador – **Crecs** and **K-Chitos** potato chips and other snacks
 Malaysia – **Wise** potato chips, other snacks
 Spain – **Crecs** potato chips, other snacks
 United Kingdom – **Sooner** snacks
Murphys, Rileys and **Groovers** potato chips, **Nik-Naks** corn sticks and **Wheat Crunchies** wheat snacks
 West Germany – **Weber, Jaus, Nur Hier, Nuschelberger** and **Stefansback** sweet baked snacks and specialty breads

Pasta

Creamette
Silver Award

Regional:

Anthony's (Southern California and Nevada)
Bravo (New York)
Dutch Maid (Northeast and Midwest)
Gioia (Upstate New York and Pennsylvania)
Globe A-1 (California)
Goodman's (Northeast and Miami)
Luxury (Gulf Coast)
Merlino's (Pacific Northwest)
Mrs. Grass (Chicago)
New Mill (Midwest)
Pennsylvania Dutch (East Coast)
Prince (Northeast and Midwest)
R&F (Midwest)
Red Cross (Midwest)
Ronco (Southeast)
Vimco (Pennsylvania, Ohio and New York)

International:

Brazil – *Adria*, *Adria Italianissimo* and *Raineri*
Canada – *Creamette*
Italy – *Albadoro* and *Monder*



Niche Grocery

Bennett's sauces
Borden egg nog
Borden process cheese and process cheese substitute products
Lite-line cheese products
CheezeTwo process cheese substitute
Campfire marshmallows
Cary's maple syrup
Classico pasta sauces
Coco Lopez cream of coconut and fruit drink mixes
Cracker Jack caramel-coated popcorn and peanuts
Cremora non-dairy creamer
Doxsee chowder and clam products
Eagle Brand sweetened condensed milk
Fisher cheese substitute products
Sandwich-Mate slices
Ched-O-Mate, *Pizza-Mate*, *Salad-Mate* and *Taco-Mate* shredded products
Frostee shakes
Harris canned crabmeat and specialty soup products

Haviland chocolate candy
Hilton's oyster stew and chowders
Kava acid reduced instant coffee
None Such mincemeat
Orleans and *DeJean's* canned seafood products

RealLemon lemon juice from concentrate
RealLime lime juice from concentrate
Serv, *Americana* and *Chatsworth* individual portion control products
Snow's chowders and clam products
Soup Starter, *Stew Starter*, *Chili Starter* and *Chowder Starter* dry mixes
Steero bouillon and broth products
Wyler's bouillon
Lite-line low-sodium bouillon

Regional:

Aunt Millie's spaghetti sauce (Northeast)
Gioia spaghetti sauce (Upstate New York)
Prince spaghetti sauce (Northeast and Midwest)
Bama jams, jellies and preserves, aseptic fruit drinks, syrup, peanut butter and mayonnaise (South and Southwest)
Country Store instant mashed potatoes (Midwest and Southwest)
Cutcher canned seafood products (Wisconsin and Utah)
Dime Brand sweetened condensed filled dairy blend (Southwest)
Ever Fresh fruit freshener (Mountain and Western)
Gregg's and *Re-Mi* foodservice mayonnaise, salad dressings and soup bases (Midwest, Southwest and West Coast)
Laura Scudder's natural peanut butter (Mountain, Western and Texas)
MCP pectin (Mountain and Western)
Magnolia Brand sweetened condensed filled dairy blend (Miami) and melloram (New York)
Mrs. Grass soup and dip mixes (North Central)

Puerto Rico:

Borden cheeses
Coco Lopez cream of coconut and fruit drink mixes
La Famosa juices and nectars

International:

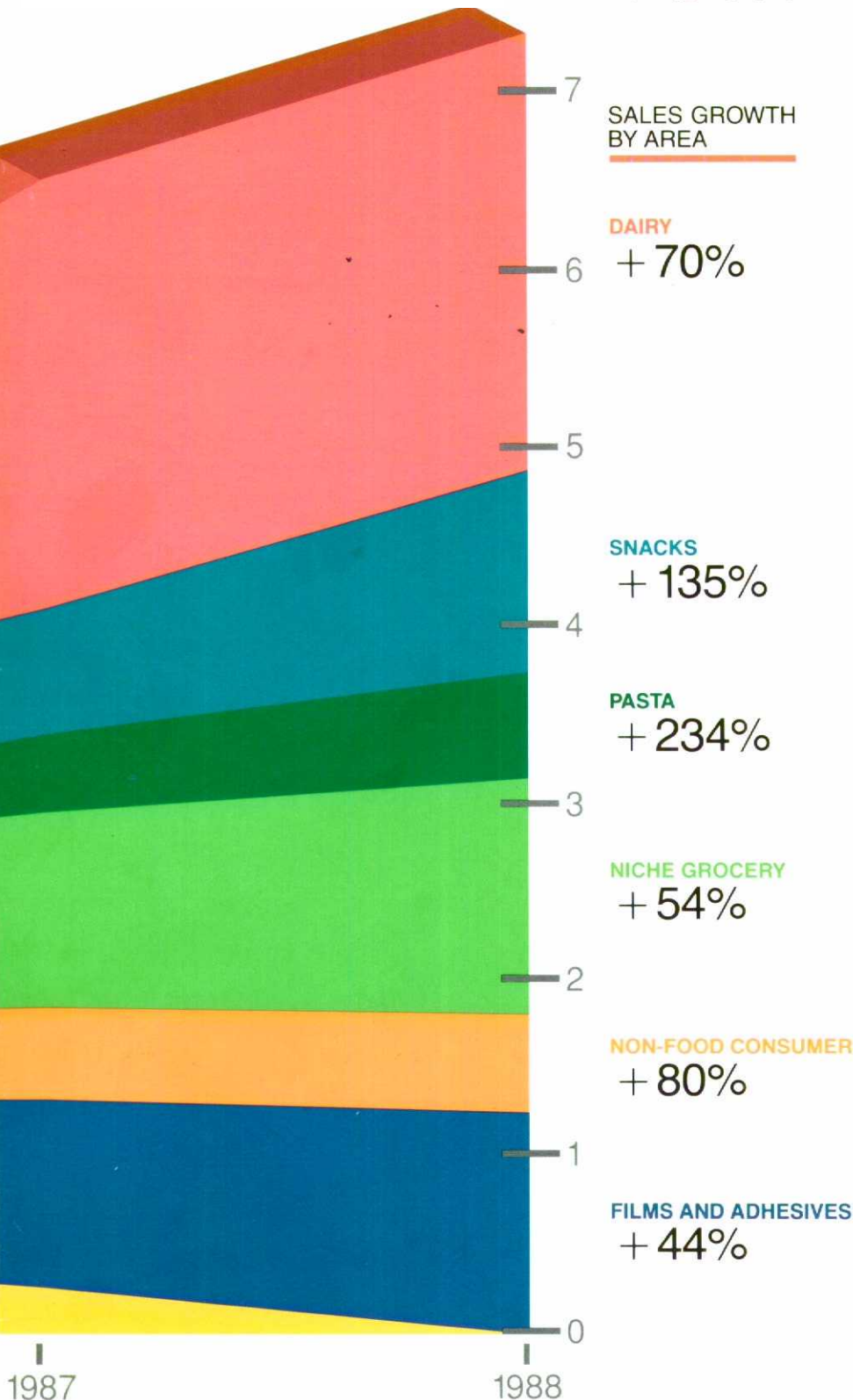
Belgium – *RealLemon* lemon juice from concentrate
Canada – *Eagle Brand* sweetened condensed milk, *Cracker Jack* caramel-coated popcorn and peanuts, *RealLemon* lemon juice from concentrate, *Snow's* chowders and sauces, *DeJean's* and *Highliner* canned seafood products
Denmark – *Cocio* bottled chocolate milk and *Hemo* chocolate drink mix
Japan – *Borden* cheeses
Spain – *Gallina Blanca* dry soup mixes and *Avecrem* bouillon (exported to Middle East and Africa as *Jumbo* dry soup mixes and bouillon)

Continued on inside back cover

1988 vs. 1985

NET INCOME
+ 61%

TOTAL SALES
+ 54%



- BORDEN, INC., founded in 1857, is a diversified producer and marketer of packaged foods, non-food consumer products, and packaging and industrial products.
- We have principal operations in the United States and 37 other countries.
- Consumers worldwide choose our brand-name products for their quality and value.
- Borden has the economies and synergies of a single large enterprise, coupled with the benefits of a unique regional approach to manufacturing, marketing and general management.
- Today we hold number one or number two market positions, in the United States or worldwide, in all six of our strategic growth areas: dairy, snacks, pasta, niche grocery products, non-food consumer products, and films and adhesives.
- We intend to continue our profitable growth in these chosen areas through internal business development spurred by carefully focused or "accurate" acquisitions. We have completed the divestment of other businesses that fell outside our six chosen areas.
- Consistently profitable growth is key to building more value for Borden shareholders. It maintains the financial strength that has allowed us to raise dividend payments each of the last 15 years and to pay 315 consecutive dividends from 1899 through year-end 1988.

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1988 Financial Review:

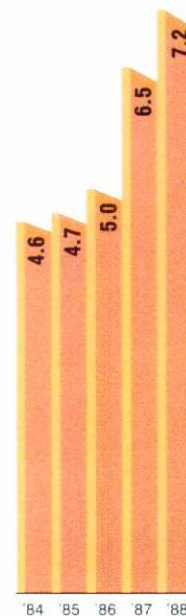
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Borden, Inc. trademarks are shown in italics throughout this annual report.

Financial Highlights

(In thousands except per share and percentage amounts)	Year Ended December 31	1988	1987	% Change
Operating Results (for the year)				
Net sales		\$7,243,526	\$6,514,422	+ 11.2
Income taxes		232,700	206,200	+ 12.9
Net income		311,882	267,056	+ 16.8
Net income per common share		4.22	3.62	+ 16.6
Dividends:				
Common share		1.49	1.24	+ 20.2
Preferred series B share		1.32	1.32	
Total dividends		110,354	91,433	+ 20.7
Acquisitions		379,859	442,648	
Capital expenditures		232,640	201,773	+ 15.3
Financial Position (at year-end)				
Working capital		\$ 591,711	\$ 721,841	- 18.0
Current ratio		1.5:1	1.6:1	
Total debt to adjusted total capitalization		43%	44%	
Shareholders' equity		\$1,848,615	\$1,658,849	+ 11.4
Equity per common share		25.01	22.52	+ 11.1
Common shares outstanding		73,910	73,653	
Return on average shareholders' equity		17.8%	17.2%	

Sales
in billions of dollars



Letter to Shareholders and Employees

Internal business development, spurred by an aggressive acquisition program begun in 1986, has sharply raised sales and profits over the past three years.

During the period:

- Sales increased 54%, to \$7.2 billion from \$4.7 billion, and
- Net income advanced 61%, to \$312 million from \$194 million.

This growth was the most rapid in our Company's history. It was achieved through a combination of internal business development and a tightly focused program of small- and medium-sized acquisitions. We have completed 62 during the three-year span, and every one dovetailed with the existing businesses in our six strategic growth areas.

More important than the volume of growth over the past three years was its impact on the basic strength and long-term prospects of Borden's core businesses: dairy, snacks, pasta, niche grocery products, non-food consumer products, and films and adhesives.

By adding precise acquisitions to these existing businesses, we have achieved or strengthened market leadership positions in each of our chosen growth areas – leadership that will serve us well in an increasingly competitive business environment.

We have used regional acquisitions to develop national distribution networks for our major snacks, pasta, niche grocery and non-food consumer products, and to extend our dairy reach to 38 states and over 50% of the population. Our distribution reach was the key to three successful 1988 rollouts:

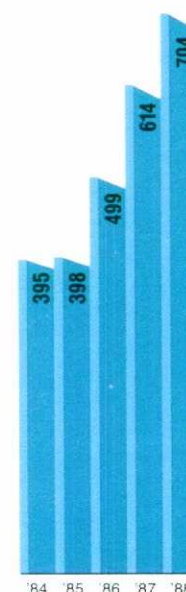
Creamette as the first national pasta brand, **Classico** as the nation's leading premium pasta sauce, and **Krunchers!** as the fastest-growing new premium snack brand.

We have developed an acquisition strategy that directly fosters internal growth, by focusing exclusively on businesses that will bring new brands, greater sales share, added distribution and new production efficiency to the businesses we already have.

In the course of completing nearly two acquisitions every month, our people have become expert in measuring the synergies from a proposed purchase. Our own business operators play the lead role in acquisitions. They are the people best able to value what another business would be worth when combined with our existing products and sales volume, our existing distribution and production facilities, and our existing purchasing volume.

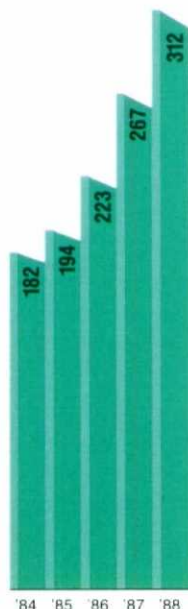
The mass we have built in our chosen growth areas makes possible economies of scale in production and distribution that simply

Operating Income
in millions of dollars



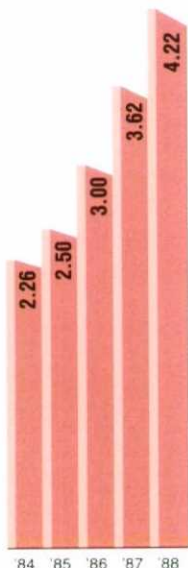
Net Income

in millions of dollars



Income Per Share

in dollars



were not open to the Company before. We are moving rapidly on these opportunities, as you will see from the discussions of our six strategic growth areas (pages 4 to 23). Our growth has been entirely in non-cyclical products – foods, non-food consumer products and films – and in cycle-resistant adhesive specialties.

In 1988, this growth again led to record results:

- Sales increased 11.2% to \$7.2 billion;
- Net income rose 16.8% to \$312 million;
- Operating income was up 14.7% to \$704 million; and
- Income per share increased 16.6% to \$4.22.

These records were achieved despite abrupt, drought-related cost increases. All of our major food raw materials – wheat, corn, potatoes and oils – were affected, and there was an unprecedented jump in raw milk prices that added over \$20 million to dairy costs in the fourth quarter.

Our performance is a tribute to the solidity of our businesses; the flexibility, drive and creativity of our people; and the diversity of our individual businesses, which cushions the impact on combined results of weakness in any one.

The profit improvement in 1988, as well as over the 1986-1988 period, resulted from internal growth and the benefits that acquisitions have brought through stronger market positions, broader distribution and greater production efficiency.

The major contributions of our acquisitions are just beginning. In their early years, they have brought in enough income to cover the interest on the money we spent to buy them. As their operating income grows beyond these financing costs, their bottom line contributions should grow steadily.

Three major changes in 1988 have further strengthened the Company's prospects for continued, solid growth in the future:

- First, the completion of our withdrawal from cyclical commodity businesses, which had started in 1980;
- Second, a major restructuring and modernization in our largest single business, dairy, which moves us a giant step toward higher margins in a \$2-billion-plus annual business; and
- Third, the beginning of a program to reconfigure our production and distribution, and thus sharply lower our costs.

The final step in our move out of commodities began in late 1987, with the

formation of Borden Chemicals and Plastics Limited Partnership to acquire our commodity chemicals business. Through the Partnership, we had reduced our ownership of the business to 25% by the start of 1988. In December 1988, we sold 23% more of the Partnership to the public, yielding about \$137.7 million for Borden to invest in its six chosen areas and to use for general corporate purposes.

Our results are no longer swayed by a volatile business that once accounted for a significant share of Company sales. But we continue to stand fully behind the Partnership, managing it and holding a 2% general partner interest. And we are assured of the steady future supply of chemicals we need for our downstream packaging and industrial products businesses.

In October we announced a restructuring of our dairy operation that is the most sweeping change for us in many years. It will integrate dairy more closely into the Company, and it will allow us to capitalize further on cost-cutting production and distribution opportunities that were made available by the Meadow Gold acquisition.

We entered 1989 significantly leaner in dairy operating costs, through consolidations and headcount reductions, and with a dairy leadership aggressively moving to assure that the Borden dairy operation is the most modern and efficient in the industry.

Dairy will play a leading role in the third major development of the year – the corporatewide reconfiguration of our production



R. J. Ventres

and distribution facilities, built many years ago when markets were different and volumes far less. With the mass we have now acquired, we can begin building "hyperplants" – very large facilities that cut production costs significantly through economies of scale. We already have plants approaching hyperplant status in our snacks, pasta, and films and adhesives businesses, and "multi-product" prototypes in niche grocery.

On the international side during 1988, we used acquisitions to strengthen our presence in Europe. We now have European production and marketing operations established in every one of our six business areas. We will use their capabilities, and more acquisitions, to capitalize on opportunities ahead from the 1992 removal of tariffs and other trade barriers within the Common Market.

Though tariff barriers may fall in 1992, national and regional differences in taste, tradition, currency, culture and language will persist. Seizing the Common Market opportunity will require regional marketing skills of a high order, and that is a Borden strength.

We completed 1988 with a strong balance sheet and the cash sources to act on our new opportunities. Steady growth of cash flows will provide increased support for acquisitions, the capital spending needed to reconfigure, rising dividends for our shareholders, and share repurchases when they are appropriate.

* * *

The foundation of our rapid growth over the past three years is Borden people – 46,000 of them now in 38 countries. Our progress and good name are tributes to their efforts. Our people have enthusiasm and a sense of urgency, and they take pride in building leadership in their businesses. They are behind the accurate acquisitions, the rapid and successful integration of acquisitions into existing businesses, the focused internal growth, the expanded distribution networks, and the steady increase in our productivity.

No small part of our improved efficiency is the product of wisdom from the production line – employees coming up with solid ideas for doing things better through competitive programs: the ROSE Challenge program to improve Return On Shareholders' Equity and the SQP program to improve Safety, Quality and Productivity in our plants.

We intend to draw more heavily on our most knowledgeable experts – Borden people – and to engage their imaginations and minds

even more effectively through gain-sharing programs like the ROSE Challenge and SQP.

We seek not only deeper participation by Borden people in Borden progress, but deeper participation in its rewards through ownership. Over 13,000 Borden employees now own shares in the Company, and we have established an Employee Stock Ownership Plan that could help increase employee ownership to an ultimate target of 15% of the outstanding shares. There is no better and no surer way of sharing the gains of our common effort over the years to come.

We must all acknowledge a special debt to our Board of Directors for their dedication, wisdom, insight and unflagging encouragement. For our Directors, 1988 was an extremely active year, capped by their adoption of the Fair Value Plan to strengthen the Board's ability to protect shareholder values in the event of an offer to purchase the Company.

We benefit greatly from the rich experience our Directors bring to the Board from their own diverse leadership backgrounds, and from their clear dedication to the interests of the shareholders they represent. I must make special mention of the contributions of Franklin H. Williams, who retired as a Director in April 1988 after 11 years of dedicated service.

Finally, we thank our shareholders for the loyal support that has made possible the Company's rapid growth and development and, in turn, a six-fold increase in share value since the August 1982 stock market low. We pledge to continue increasing both the value of your Company and the dependable flow of dividend payments that has now risen each year for 15 consecutive years.



R. J. Ventres
*Chairman and
Chief Executive Officer*

Return On Average Shareholders' Equity

% Return



Dividends Per Share

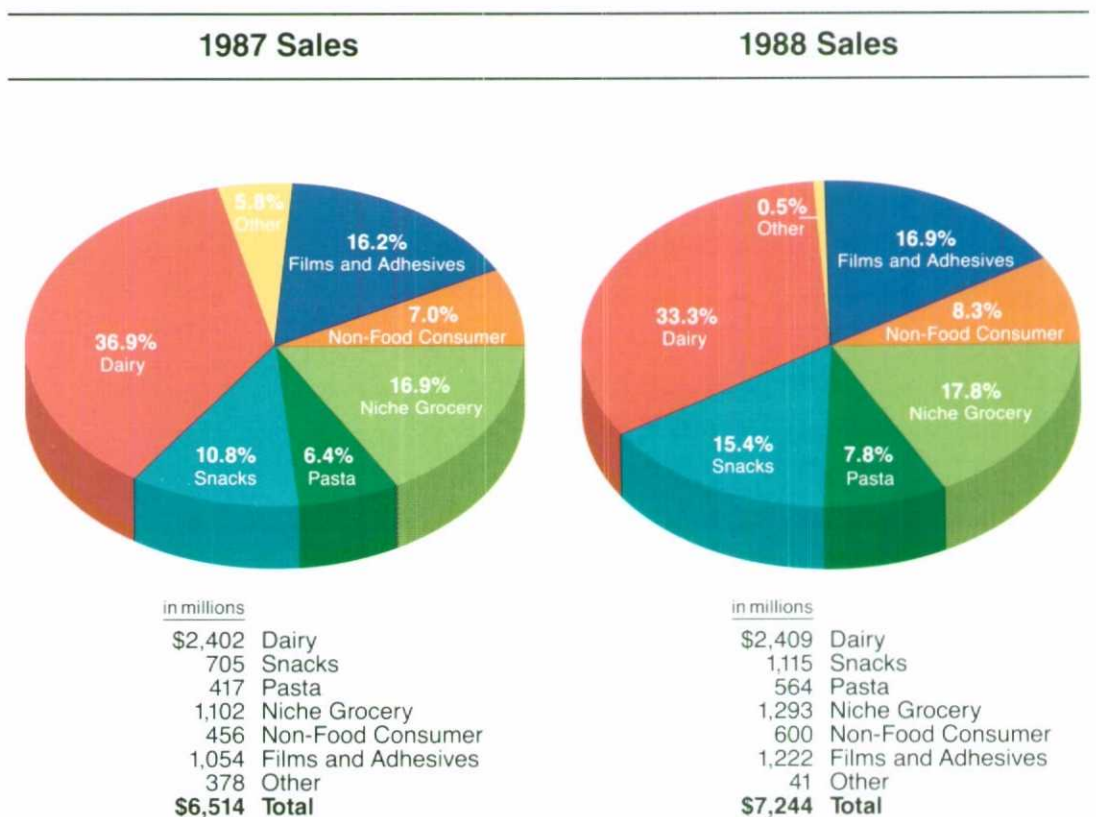
in dollars



Six Strategic Growth Areas

Three years ago Borden identified six strategic growth areas to serve as the roadmap to our Company's future. We have focused our assets and efforts in these six areas – dairy, snacks, pasta, niche grocery products, non-food consumer products, and films and adhesives.

We have expanded the businesses with outstanding success. Through internal business development spurred by accurate acquisitions, sales gains over the 1986 to 1988 span ranged from 44% in films and adhesives to 234% in pasta, yielding the 1988 sales breakdown below. At the same time, we have completed the divestment of other businesses outside our focus, which accounted for nearly \$650 million in sales just a few years ago.



Other – Divested operations, and basic chemicals / polyvinyl chloride resins business transferred in 1987 to Partnership; prior year values: 1984, \$643 million; 1985, \$634 million; 1986, \$525 million.

62 Acquisitions in Three Years

Borden acquired 62 companies or businesses during the three-year period from 1986 through 1988. Every one has been a precise fit into one or more of our six strategic growth areas. International acquisitions were prominent in 1988, with 13 of the year's 24 outside the United States.

The total cost for all 62 acquisitions was approximately \$1.4 billion, and their combined annual sales amount to about \$2.8 billion.

Dairy

- 1986 Midwest Farms' dairy business, Louisiana
Meadow Gold Dairies, Inc., 19 states
- 1987 Valley Bell Dairy Company, West Virginia
Furr's dairy business, New Mexico
Borman's dairy business, Utah
Sinton's dairy business, Colorado
- 1988 Mantecados Nevada, Inc., Puerto Rico
Rowland's dairy business, Idaho

Snacks

- 1986 Jays Foods, Inc., Illinois
- 1987 Kuntzle Group (*Stefansback* bakery chain), West Germany
The Snacktime Company business, Midwest
Laura Scudder's, Inc., California
Karl Jaus & Sohne (commercial baker), West Germany
- 1988 Humpty Dumpty Foods Limited, Canada
Sooner Snacks Limited, England
Nuschelberg GmbH (bakery chain), West Germany
Crane's potato chip business, Illinois
Red Seal Snack Co., Colorado

Pasta

- 1986 Mrs. Grass, Inc., Illinois
Western Globe Products, Inc., California
RHM's pasta business (Merlino's Macaroni, Inc., Washington; Gioia Pasta Company, New York; Ravarino & Freschi, Inc., Missouri)
Penn Dutch noodles
- 1987 Paty Ltda., Brazil
The Prince Company, Inc., Massachusetts
Albadoro S.p.A., Italy
- 1988 Raineri, S.A., Brazil
Monder Aliment S.p.A., Italy

Niche Grocery

- 1986 *Cheese Starter* cheese media
Doxsee Food Corporation (canned seafood, other), Maryland
Daifield, Inc. (foodservice), North Carolina
Fisher cheese substitutes
- 1987 *Soup Starter* dry mixes
Orleans canned seafood
Steero bouillon
Blue Channel's *Harris* canned seafood
DeJean's canned seafood
MCP Foods, Inc. (flavorings), California
Sunkist's *Perma-Stabil* flavorings business
- 1988 Serv-A-Portion (foodservice), California
Highliner canned seafood, Canada
Carolina Foods' nectars business, Puerto Rico
Hilton's canned seafood
Gregg/Re-Mi foodservice group
(Gregg Foods of Garden Grove, Inc., California; Gregg Foods of Portland, Inc., Oregon; Re-Mi Foods, Inc., Illinois)
McCormick's foodservice business

Non-Food Consumer

- 1986 Airfix, France and United Kingdom
Isgo's wallcovering business, Illinois
A.U. Morse's wallcovering business, California
- 1987 *James Seeman Studios* wallcovering business
Cassidy-Hicks Wallcoverings' business, Colorado
- 1988 Borges GmbH (wallcoverings), West Germany
Bob Mitchell Designs' wallcovering business, California
Storeys Decorative Products Limited (wallcoverings), England
The Orchard Corporation of America (decorative overlays), Missouri

Films and Adhesives

- 1986 Acme Resin Corporation (foundry resins), Illinois
- 1987 Kordell's foundry resins business
Arcoa's refractory coatings business, Ohio
Perkins Industries, Inc. (forest products resins), Southeast
- 1988 Vicaplast Ltda. (films), Brazil
S.F.P.O. (films), France
Wrapping Specialist's films business, Australia
Macaple's rigid packaging business, France
Pelapack Plastics' films business, Australia



1 Dairy

Borden is the largest U.S. dairy company. We offer consumers a full line of fresh, high-quality products under well-known brand names including *Borden*, *Meadow Gold*, *Lite-line* and *Viva*. Our non-U.S. business is led by *KLIM* whole milk powder, available worldwide. We have fluid dairy units in Latin America, and our *Lady Borden* ice cream is the top premium/superpremium brand in Japan.



BORDEN
Homogenized
Vitamin D
Milk

BORDEN
Homogenized
Vitamin D
Milk



KEEP
REFRIGERATED

HALF GALLON

THE DAIRY INDUSTRY

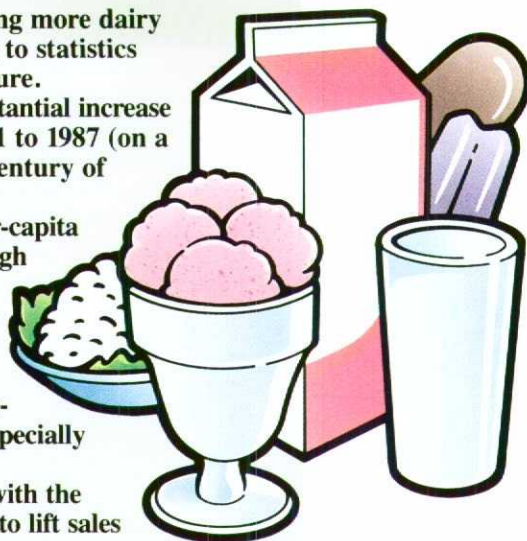
The average American is once again consuming more dairy products with each successive year, according to statistics compiled by the U.S. Department of Agriculture.

The 1980s have brought a steady and substantial increase in per-capita consumption, up 11% from 1981 to 1987 (on a milk equivalent basis). That's a significant turnaround after a half century of declining product demand.

Rapid growth for lowfat milk is one factor driving the upturn. Per-capita consumption gained 24% from 1981 to 1987. Yogurt soared 83% (though on smaller total volume). While whole milk continued to slip, it accounts for nearly half of all milk sold and remains the beverage of choice for millions of people who want full flavor and need the protein, calcium and even fat content of "nature's most perfect food."

Ice cream posted a 7% per-capita pickup over the same span. Premium ice milks, premium ice creams and frozen novelties have been especially strong in the past several years.

The widening range of lowfat and nonfat dairy products – along with the more-recent introduction of low-calorie, sugar-free items – is expected to lift sales further through the next decade.



Borden has a unique opportunity within its domestic dairy operation to increase income – even though our profitability has historically exceeded much of the industry.

First, we are starting on a major reconfiguration of our U.S. manufacturing network, an effort that promises to raise production efficiency and lower costs substantially. That spells not only greater profits for us, but also an ability to share the savings with consumers.

Second, we are carrying out programs to spur growth and build profits by taking full advantage of our new products and best marketing methods.

Size has created and will allow us to capitalize on these opportunities.

As we move ahead, we will continue to assure the highest levels of quality, wholesomeness and freshness for our products. We have held zealously to those standards ever since Gail Borden founded our Company, and the modern dairy industry, 132 years ago.

Reconfiguration

Dairy has long been a local business, with raw milk procured near each plant, and distributed to customers near that plant (usually not much beyond 100 miles). Thousands of dairies were built across the country when highways weren't fully developed, when refrigeration to preserve milk was limited, and when dairies couldn't be built big enough to serve large geographic areas.



Borden offers a broad range of dairy products that are low in fat and calories, including new protein-fortified skim milks; premium ice milks; and sugar-free frozen novelties, flavored milks and non-fat yogurt.

Dairy Sales

in millions of dollars



International
United States

None of these factors is as limiting today, and that, combined with mass, is the key to unlocking production efficiencies.

We are planning to construct "hyperplants" that reduce per-unit processing costs through economies of scale. Borden engineers have plant designs in-hand – using proven equipment and technology – that can process three times as much raw milk as our largest plant today. One hyperplant would replace perhaps five or six of our smaller, less efficient dairies.

The savings are substantial even with higher costs for transporting milk greater distances. Just a penny less per quart of milk quickly becomes millions of dollars because Borden processes more than three billion quarts a year.

A giant ice cream plant we recently built at Houston, Texas – replacing five older plants – illustrates the scale Borden can achieve in fluid milk as well.

We have teams analyzing hyperplant opportunities throughout our dairy network, and we expect to act in 1989. Meanwhile, we continue to raise production efficiency on a case-by-case basis by consolidating older dairy facilities with more modern ones nearby.

Our mass in dairy also means we can build large, economical plants even for specialties. Half-and-half, whipping cream and other extended shelf-life items, for example, are now produced for all division customers east of the Mississippi at a single new unit in Illinois.

Size continues to lower our production costs another way, too: volume-discount prices for packaging and other purchased materials.

Marketing Benefits

Tremendous leverage from new products and successful marketing techniques is yet another benefit of Borden's mass.

Before acquiring the Meadow Gold Dairies business, Borden dairy products reached about 35% of Americans, in 24 states. Meadow Gold stretched our coverage to over 50% of the people and 38 states. We've since filled gaps and deepened this coverage with five small acquisitions, led by Valley Bell Dairy Company in West Virginia.

An immediate benefit was cross-branding of existing products such as Borden's **Eagle Brand** premium ice cream and Meadow Gold's **Turtles*** ice cream novelty. We quickly extended these and other popular specialties from one system into the others, adding new customers and new profits with little risk or distribution cost. An extra plus: As sales volume goes up, per-unit production costs come down.

Today there are millions more customers for every new product Borden develops, and profit opportunities to match. In 1989 we'll continue to roll out more of the sugar-free, lowfat and protein-fortified products preferred by many of today's consumers, and we have other new items in the offing.

In the same way, successful marketing methods developed in any of Borden's regional dairy units rarely stay local for long. Other dairy managers pick up the ones that will work in their areas, with their customers. A divisionwide marketing staff supports the regional efforts and contributes its own ideas and expertise.

International Opportunities

Untapped potential for Borden dairy growth exists outside the United States as well.

KLIM whole milk powder continues to broaden its reach to additional customers in additional countries. Efforts are under way to expand both the fluid milk business in Latin America and our ice cream position in the Far East. In Europe and most other parts of the world, there are still more opportunities for Borden – the world's pre-eminent dairy company.

* A trademark of Rowntree Mackintosh Canada.



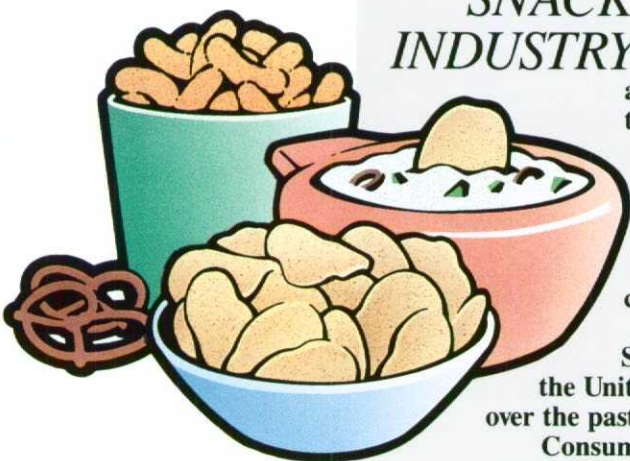
KLIM whole milk powder, in a special variety that dissolves instantly in hot or cold beverages, was successfully launched in 1988 in Colombia.

2 Snacks

Borden is the second-largest producer of salty snacks in the United States and North America. Each of our regional snack units sells potato chips under its own regionally well-known brand names, and we use their coast-to-coast distribution network to market other snack products. In Europe, Borden has a salty snack base in the United Kingdom and Spain, and we are number one in West Germany's huge market for sweet baked snacks and specialty breads.



THE SNACK INDUSTRY



The U.S. salty snack industry amounts to about \$8 billion in retail sales, making snacks one of the largest grocery-store categories. Industry sales growth was about 4% in 1988 and has outpaced the all-foods' growth average nearly every year over the last decade.

Potato chip sales have been edging up steadily and now account for about 47% of industry sales. New product successes are a key reason for this rising popularity, products such as premium kettle-cooked chips and a diversity of new flavors. Tortilla chips are also advancing at a greater than average rate. The fastest gainer of all has been popped popcorn, starting from a relatively small base but still soaring more than 40% in 1988.

Retailers promote snacks heavily. Besides being popular with consumers, snacks have fast inventory turnover, profit margins are good, and many producers (including Borden) deliver to the store shelves. Sales of salty snacks are also moving up steadily in eastern Canada and the United Kingdom, with each market posting an average annual gain of 9% over the past several years.

Consumer tastes are different in West Germany. The bigger business – in which Borden participates – is sweet baked snacks and specialty breads, at \$6.5 billion in annual sales more than a dozen times larger than salty snacks.

Over the past three years, Borden has almost doubled its U.S. snack sales and transformed the business into a powerful, number two national competitor.

An organizational approach unique to the U.S. food industry underlies this success (and also the development of our third strategic growth area, pasta). Borden has built its snack operation on a framework of strong regional units, starting a quarter century ago with Wise Foods on the East Coast. Each unit combines high-quality, market-leading brands with established distribution systems and customer service.

Collectively they have a mass that brings new opportunities to Borden. We can now distribute specialty snacks nationwide, reaching millions more customers, and we can achieve synergies from size in manufacturing, marketing and administration.

Three Objectives

Our snack strategy moved into high gear early in 1986: first, complete a national network; second, integrate parts of the businesses while maintaining regional flexibility; and third, build on the strong, new foundation.

Acquisitions have since achieved the first objective. We've added Jays Foods, Inc. and the *Crane's* potato chip brand in Illinois, The Snacktime Company

business in the Midwest, Laura Scudder's, Inc. on the West Coast, Humpty Dumpty Foods Limited in eastern Canada and Red Seal Snack Co. in Colorado.

Borden now has 10 snack units in North America, offering 17 principal local chip brands. We reach about 95% of the U.S. population and 70% of Canada's.

The initial measures to integrate these snack units took place quickly. The new concept of reconfiguring production has added another dimension to the integration objective.

Borden currently operates 18 snack plants in North America. Production efficiency varies from plant to plant. Since nearly all plants came to us from acquisition, some plants are better located than others to reach today's Borden markets.

Three plants already approach hyperplant efficiency, operated by Wise Foods at Berwick, Pennsylvania, Guy's Foods, Inc. at

Snack Sales
in millions of dollars
Continuing Operations



International
United States



Borden's international salty snack sales soared to an annual rate exceeding \$200 million with the 1988 acquisitions of Humpty Dumpty Foods in Canada and Sooner Snacks in the United Kingdom.

Liberty, Missouri, and Clover Club Foods Company at Kaysville, Utah. Investments were made in 1988 to use their capabilities fully and to expand them further. The Clover Club plant, for example, has taken on production of snacks for Laura Scudder's.

We're looking at various options to improve our production network: transferring production from less efficient facilities into existing, state-of-the-art plants, upgrading our existing plants into hyperplants or building new hyperplants.

Non-production synergies are also being implemented. These include joint, volume-discount purchases of agricultural commodities, packaging materials and advertising, as well as administrative consolidations to handle paperwork more efficiently.

Marketing programs remain regionally driven under Borden's decentralized approach to managing the snack business. Regional marketing and product creativity, however, are shared systemwide, with oversight and additional ideas from group executives. The process is key to Borden's third snack objective – to build on its strong, new foundation for growth.

A profitable example is the rollout of "hot" new products throughout the Borden universe. Some are products originated by one regional unit for its own limited range of customers; others are developed by group researchers. In either case, the snack network's new size and reach multiplies the number of potential customers and the dollars of potential profit.

It's happening now with **Krunchers!** kettle-cooked potato chips, a premium product introduced in mid-1986 by Snacktime in its Midwest region. Spurred by Snacktime's outstanding success, four other Borden snack units now offer **Krunchers!** in a total of 19 states. Broader distribution is coming in 1989, but already **Krunchers!** chips have won the top spot among U.S. kettle-cooked brands.

Our pre-popped popcorns have also won wide consumer acceptance. A tender-eating baby corn style, developed by Geiser's Potato Chip Company in Wisconsin, is now available nationally under the **Wise** brand along with cheese flavored popcorns developed by Wise Foods.

Another promising product is **Super Crispy Ridgies**, a rippled potato chip that is "crispenized" with a proprietary cooking technology. Wise Foods launched the product in nine states during 1988. Expansion is planned both in Wise and other regional units.

Wilhelm Weber is the leading commercial baker in southwestern and central West Germany, offering a full line of sweet baked snacks and specialty breads.

International Growth

Outside North America, Borden acquired a salty snack position in the United Kingdom in April 1988 with the acquisition of Sooner Snacks Limited. The company sells a wide range of potato chips, nuts and other snacks under several well-known brands.

Processing technologies were quickly transferred to Sooner from the U.S. operations. Some of our leading U.S. products – with fine-tuning for U.K. tastes – are heading to Sooner, too.

Sooner is significant strategically. Together with our snack operation in Spain, Sooner gives Borden a meaningful presence in Europe. Our network of regional snack companies has worked exceptionally well in North America. We'd like to build the same type of network in Europe.

Focused acquisitions have already given us a successful, leading position in West Germany's sweet baked snacks and specialty breads business.

Our largest and flagship operation is commercial baker Wilhelm Weber GmbH (like Wise Foods, celebrating its 25th year as part of Borden in 1989). Weber acquired the Karl Jaus & Sohne commercial bakery business late in 1987, and in 1988 integrated the two production/marketing systems. In January 1989, the Gross commercial bakery was acquired to further enhance Weber's position.

Borden also operates several chains of retail bakeries, each a leader in its region. To complement **Nur Hier** in Hamburg and **Stefansback** in Frieberg/Stuttgart, we acquired **Nuschelberg** in Nuremberg in April 1988.



3 Pasta

Borden is the largest and lowest-cost producer of branded pasta in the United States and the world. Our *Creamette* pasta is the industry's first and only national brand. We distribute it through Creamette Company's own sales force as well as through a coast-to-coast network of pasta companies, alongside their own regional brands. Outside the United States, Borden is Brazil's leading pasta producer, and we have a newly established base in Italy for growth throughout Europe.



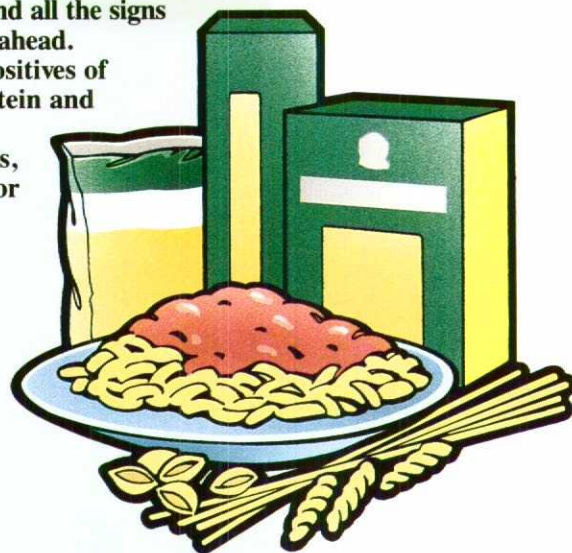
THE PASTA INDUSTRY

A passion for pasta has been sweeping America, and all the signs point to tremendous market potential in the years ahead.

Consumers have started to appreciate the positives of pasta. It's nutritious, with a good balance of protein and complex carbohydrates. It's versatile and easy to prepare in lots of tasty ways – hot or cold, with countless types of sauces, as a main meal or side dish. And it's also economical, providing value for the consumer's dollar that other foods can't hope to match.

The average American consumed an estimated 17 pounds of pasta in 1988. That's up nearly 50% in a decade, but still only two servings a week and a long way from Italy's 55 pounds per person per year. The gap is expected to close as U.S. consumers more often choose pasta – not just at home, but also in restaurants and other food service outlets, where demand is moving up even faster.

The rising popularity of pasta is a global trend. Already sizable markets continue to expand in many nations in Europe and South America. Pasta is starting to make inroads, moreover, in Japan and other countries of the Far East that have long enjoyed rice-based noodles.



The fastest expansion in all of Borden's strategic growth areas has come in pasta, with worldwide sales more than tripling since 1985.

The development of the domestic pasta business mirrors the development of snacks. Through carefully focused acquisitions, Borden has built a nationwide network of 11 regional pasta units. They operate 14 plants across the country, offering consumers *Creamette* pasta and a total of 17 principal regional brands.

Creamette brand's rapid growth has far outpaced the industry. Over the past three years alone, its volume has soared more than 60%, while the rest of the industry edged up only 6%. *Creamette* rose to the nation's number two position in 1988 in single-brand share of sales, and it's closing in on number one.

The regional brands purchased by Borden prior to 1986 continue to be strong, and Borden has expanded further by acquiring other major regionals. The Prince Company (purchased in mid-1987) was especially significant. Prince is the largest of our pasta purchases; it holds the top position in the important New England market; and since Borden pasta earlier had little presence in New England, it provided the last link of our coast-to-coast distribution network.

Borden's overall leadership in U.S. branded pasta sales continued to widen in 1988.

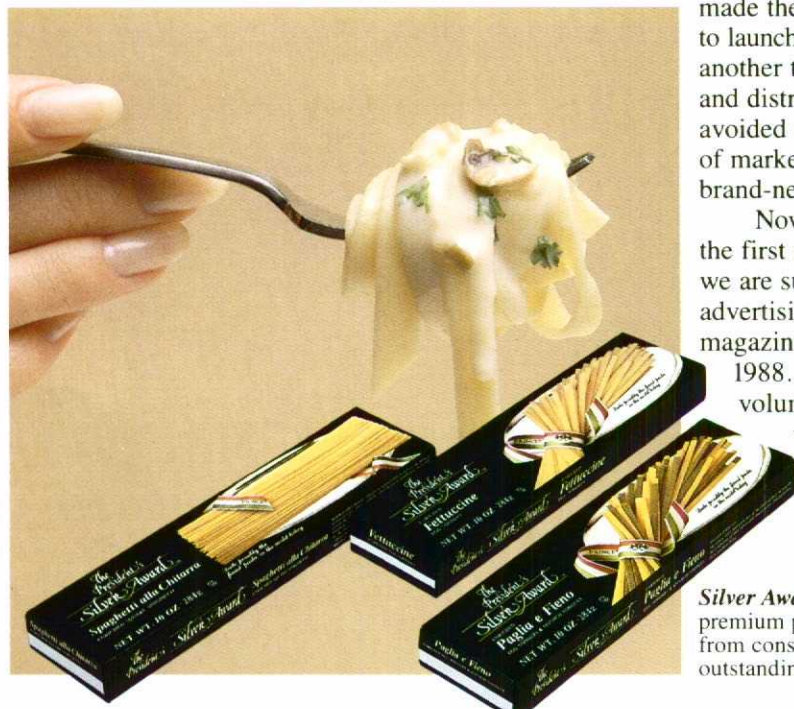
Creamette and our regional brands have doubled in combined share in just the last three years.

This outstanding success is the outcome of Borden's unique network approach to marketing. Other companies had tried unsuccessfully to build national pasta brands.

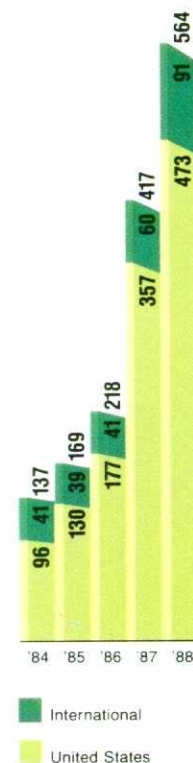
Our network of regional operations made the difference by allowing us to launch *Creamette* in one area after another through established sales and distribution operations. We avoided the costly and risky process of marketing *Creamette* through brand-new operations.

Now that *Creamette* brand is the first (and only) national brand, we are supporting it with national advertising. A television and magazine campaign started in April 1988. It's designed to build volume by demonstrating the versatility of pasta and the quality of the *Creamette* brand, with the theme "Doesn't your recipe deserve *Creamette*?"

Silver Award, Borden's U.S.-made premium pasta, has won wide acclaim from consumers and food writers for its outstanding taste and texture.



Pasta Sales
in millions of dollars



We're expanding our premium pastas as well. In September 1988, we became the exclusive U.S. distributor of **DeCecco** pasta, made in Italy and widely regarded as one of the world's finest. The brand complements our U.S.-made premium products, **Silver Award**, **Goodman's**, and **Ravarino and Freschi**.

Manufacturing Efficiency

Borden now produces well over 800 million pounds of pasta a year in the United States (and more than a billion pounds worldwide). That mass allows us to achieve manufacturing efficiencies that simply weren't available when we were smaller. With ever-growing volume, all 14 of our U.S. pasta plants are now running some of their lines around the clock, seven days a week.

Our efficiencies begin with durum wheat purchases, where Borden's leverage as the biggest buyer anywhere assures us the best prices available. Volume discounts trim the cost of product packaging as well.

We have four plants approaching hyperplant status, and through them we are the industry's lowest-cost producer. These state-of-the-art facilities are run by Creamette at New Hope, Minnesota, and Phoenix, Arizona, and by Prince at Lowell, Massachusetts, and Warren, Michigan. As part of the corporate initiative, we are looking at all of our system to identify and assess hyperplant possibilities.

Our Ravarino and Freschi plant at St. Louis, Missouri, has a special status within the Borden network. It produces specialty pasta shapes – lasagna, manicotti, jumbo shells and the like – for sale by many of our operating units. Their combined specialties volume became great enough to focus production in one facility, again lowering costs through economies of scale.

We have research and development programs under way to bring more science into the business. The production and cooking of pasta is more complex than meets the eye and involves sophisticated physical and chemical processes. We're studying these underlying fundamentals to gain insights that will help Borden to formulate unique pasta products, to improve our quality even further, and to develop better and more-economic processes.

International Expansion

Two acquisitions in Italy have set the stage for growth in Europe. In August 1987, we purchased Albadoro S.p.A., a strong regional producer in the northwestern part of the country, with an expanding export business. In August 1988 we acquired Milan-based Monder Aliment S.p.A., a national marketer of dry-filled ravioli and tortellini and already a major exporter.

Together they give Borden the critical mass needed to develop a substantial pasta business throughout Europe. We'd like it to be a U.S.-type network of companies – each strong in its own country and together covering the key parts of the continent.

We'll work intensively toward growth in Europe in 1989, and at the same time continue pursuing an entry into the attractive Japanese pasta market.

Our largest non-U.S. pasta business today is in Brazil, where Borden is the nation's leading producer. Our flagship and widely distributed brand is **Adria**. It's complemented by regional pastas including the **Raineri** brand we acquired in February 1988. As in the United States, we couple the economies of a sizable business with the market benefits of regional operations.



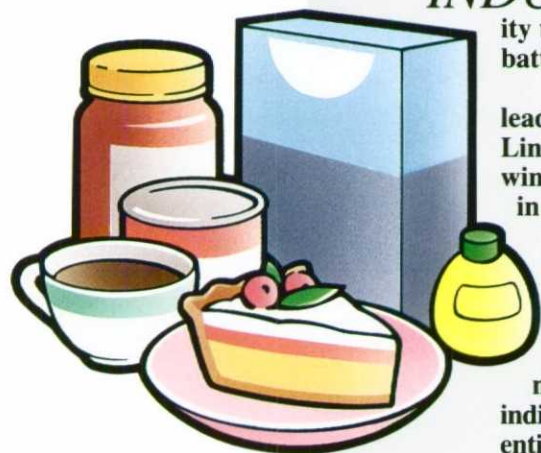
The Albadoro and Monder Aliment companies give Borden a solid foundation for growth in the high-pasta-consumption European market.

4 Niche Grocery

Our domestic niche grocery business is a fast-expanding collection of popular brands that together give us the number one or number two share of sales, nationally or regionally, in many product categories – 36 brands in 25 categories at year-end 1988. Outside the United States, our largest operations are in Canada and in two joint ventures, one producing Spain's best-selling bouillon and dry soup mixes, and the other a leader in Japan's cheese market.



THE NICHE GROCERY INDUSTRY



U.S. food companies are paying more attention than ever to the power of brand names and the growth of the foodservice industry.

Number one and number two brands have long been valued because they can usually achieve higher profitability than lower-ranked brands. The added allure today stems from the fierce battles breaking out for supermarket shelf space and share of category sales.

Among the products most likely to keep their shelf space are the brand leaders having the greatest share of sales and deepest consumer commitment. Line extensions bearing a well-known brand, in addition, are more likely to win shelf space over the thousands of other new products launched annually in the industry.

The foodservice industry – restaurants, fast-food outlets, school and company cafeterias, etc. – takes 48 cents of every dollar spent on food in the United States. Its sales are advancing faster than supermarket sales.

Supplying products to the foodservice industry thus offers significant production volume and economies of scale for food processors. More business and lower costs means greater profits. There's an extra plus to supplying individual-portion packs that are branded: It strengthens brand franchises by enticing consumers, after sampling a quality product, to use it at home.

“We’re the big fish in small ponds.”
“We major in the minors.”

These two expressions sum up our niche grocery business as well as any. Borden hasn’t chosen the “megabrand” approach of most other competitors in the packaged food industry. Instead of striving for enormous sales dollars from just two or three products, we’ve attained a \$1.2 billion U.S. mass with a treasury of small- to mid-size brands.

The sheer number of niches we’re in ensures greater earnings stability than if we had the same income from a few products – to use another expression, “We’re like a ship with many watertight compartments.” Our businesses are generally too small to draw a lot of attention from other food producers, keeping us out of the bruising price wars that take place on the megabrand battlefield.

Our product managers are comfortable running niche business, and they have the special skills needed to do it well. Since our senior executives share those attributes, there’s no lack of interest or support. We’re anxious to take on brands that don’t fit the philosophy elsewhere or don’t get enough attention.

The criteria for joining the Borden family, however, are strict:

- First, we demand top brand names and high market shares.
- Second, we want good growth prospects – in the base business, through line extensions, or through sales-building synergies with our other grocery items.

• Third, we look for synergies with our manufacturing system. Often we’ll buy a brand without the plant, and then manufacture in one of our own modern facilities. *Steero* bouillon, for example, is made side-by-side with *Wyler’s* in the Northbrook, Illinois, multiproduct plant.

• Fourth, we particularly value acquisitions that bring skilled managers eager to work in a niche products environment.

Three 1988 Successes

We’ve capitalized on three excellent opportunities during 1988: foodservice products, premium pasta sauce and canned seafood specialties.

Borden has long been a supplier of individual-portion and large-size products for

Niche Grocery Sales

in millions of dollars
Continuing Operations



International
United States



Serv-A-Portion provides individual-size products to the foodservice industry under the *Serv*, *Chatsworth* and *Americana* brands.

restaurants, fast food chains, company and school cafeterias, and other outlets throughout the foodservice industry. Among other niche grocery products, we sell cheese, dressings, syrups, jams and jellies. (Other Borden units sell dairy products, snacks, pasta and plastic wrapping film for foodservice.)

To capture more of today's industry sales for foodservice and more of its rapid-growth potential, we made three major acquisitions in 1988. In May we purchased Serv-A-Portion, the nation's leading producer of individual portion products such as condiments, jams and jellies, honey and syrups. In December we strengthened this stake by acquiring a similar business from McCormick & Company. The same month we purchased the Gregg/Re-Mi Foods Group, a manufacturer and marketer of more than 350 products for foodservice.

Borden is now solidly positioned to intensify its marketing efforts and achieve synergies throughout the businesses. A new foodservice operating group was formed at year-end to manage the current operations and map out the future.

Our second success lies in the billion-dollar U.S. pasta sauce business. Borden has won the top position in the premium niche with its line of **Classico** sauces, based on recipes from three regions of Italy. We did it by conducting one of the food industry's most successful 1988 rollouts. National advertising launched in the second half featured consumer testimonials to **Classico** brand's outstanding taste and the authenticity of its regional recipes.

With sales still growing steadily, **Classico** sauce has surged to number three in the overall U.S. market, even though it sells for at least 20-30% more than non-premium brands.

We intend to grow in the overall sauce category by taking advantage of regional opportunities as well. A new "Family Style" of our **Aunt Millie's** brand, sold in the Northeast, is being launched to appeal to consumers who prefer a sweeter, chunkier sauce.

Canned seafood specialties, our third key success of 1988, had been identified the prior year as a high-potential area. We recognized that there was no full-line supplier to the trade and moved to fill the void. We added to our existing line of clam products by acquiring leading brands of canned crabmeat, shrimp and oysters, the latest being the **Hilton's** line of oyster stews and chowders in October 1988.

Borden is now a full-line supplier – and the only one. Our brands account for one of every three dollars spent in this \$300 million national market. We're number one or two in six niche seafood categories.

Borden has shared ownership with the Spanish founding family since entering into the highly successful Gallina Blanca joint venture 25 years ago.

A new "Gold Standard" merchandising program highlights the premium quality of Borden's seafood products, now dressed in similar, eye-catching gold labels. It also points out the advantages to retailers of one-stop shopping with a supplier who can help more than any other with in-store merchandising, inventory management and a full range of other services.

European Opportunity

Niche grocery outside the United States, while small in comparison to the domestic businesses, enjoys the same benefits of number one or number two category rankings and the same excellent current performance.

Europe is our most promising area of future growth. Our goal is to build a substantial stake in the post-1992 unified market. We'll do it the way that's worked so well domestically – not through pan-European megabrands, but through many smaller national or regional businesses that achieve synergies in their operations.

We'd like more businesses like Gallina Blanca, S.A. in Spain. The company has already extended its success in soup and bouillon to markets in West Africa and Central America, and is assessing the prospects in other parts of the world.

Products launched last year – and more announced for 1989 – are protecting and leveraging on Gallina Blanca's market strength. Its new instant soup scored an instant success in 1988 by winning nearly a 60% market share. Premium quality bouillons, a new range of soups with pasta and rice, and a family of non-soup pasta and rice dishes are upcoming.



5 Non-Food Consumer

Borden is focusing on do-it-yourself products for home improvement. We are the world's leading producer of wallcoverings, the largest and fastest growing of our non-food consumer products. We are also number one in the United States (and have sizable international businesses) in household glues, with the *Elmer's* line, and in spray paints with our *Krylon* family.



 **SUNWORTHY**
SOLID VINYL

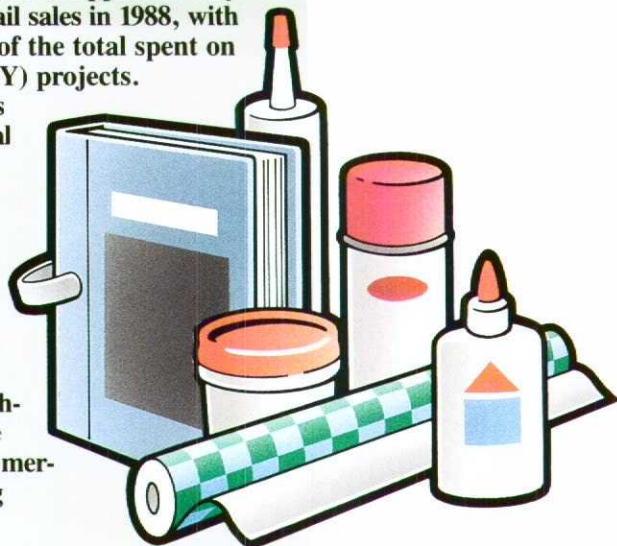
THE NON-FOOD CONSUMER PRODUCTS INDUSTRY

The U.S. home improvement market amounted to approximately \$100 billion in retail sales in 1988, with about two-thirds of the total spent on do-it-yourself (DIY) projects.

DIY accounts

for an even greater share of wallcoverings. It's estimated that residential customers hang 85% of their own wallcovering, a task that's been made more convenient by the development of prepasted rolls. It's also easier for today's customers to purchase wallcovering: They are no longer limited to placing orders in traditional decorating centers, but can "Buy it today, hang it tonight" through the in-stock programs of mass merchandisers and home improvement centers.

Still, compared to an estimated 18-20% in Europe and 11-13% in Canada, only about 7-9% of the residential walls in the United States are decorated with wallcovering. The U.S. wallcovering industry is pushing hard to boost its percentage point by point – and thus realize more of the tremendous potential for growth – through individual and joint merchandising programs that point out the stylish and versatile decorating opportunities with wallcovering.



Borden enters 1989 with a strong position in producing and marketing products for do-it-yourself home improvement. A sharpened focus set the stage for us to act decisively in 1988 to build in our current areas of interest – wallcoverings, adhesives and spray paints – and divest the car-care line and Sterling Plastics unit that no longer fit.

Our 1988 expansion again came largely in wallcoverings and other decorative products, where four acquisitions equaled our 1986-87 number. Borden's world-leading business now covers all five of the major world markets. Our principal manufacturing units are Columbus Coated Fabrics (CCF), Bob Mitchell Designs and The Orchard Corporation of America, all in the United States; Sunworthy Wallcoverings in Canada; Crown Wallcoverings Limited and Storeys Decorative Products Limited in the United Kingdom; and Borges GmbH in West Germany. One of our largest distribution

centers is located in France.

Each Borden wallcovering unit boasts its own strengths and capabilities:

- CCF is one of the world's largest suppliers of fabric-backed vinyls to the commercial and residential markets, including the only prepasted types available.

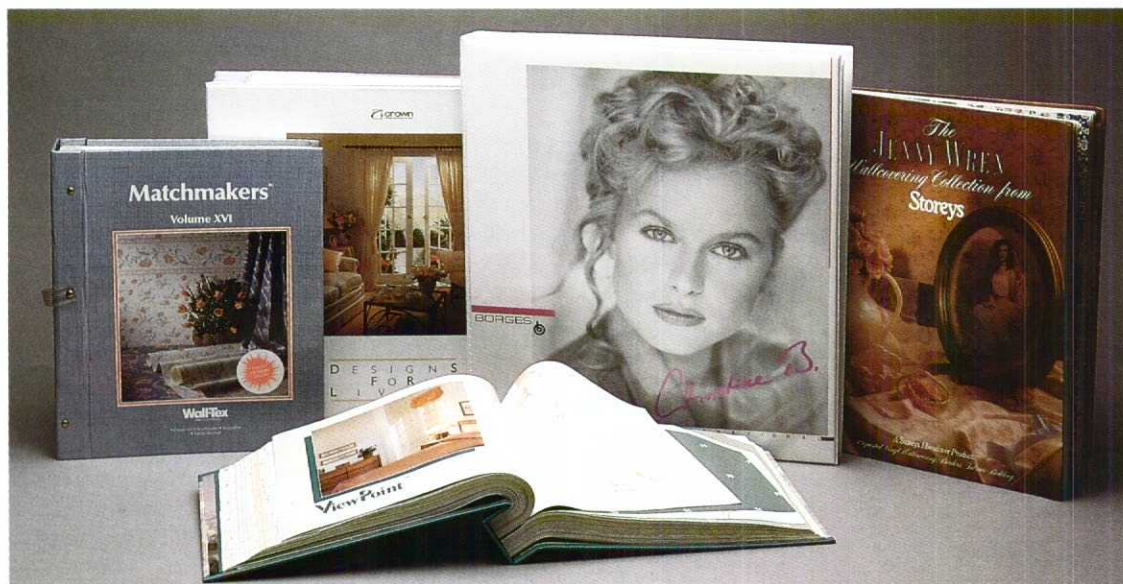
- Crown paces the industry with its advanced equipment for "in-register printing" that gives vinyls a silken tapestry look. The company is also a leading producer of the fast-growing expanded and blown vinyls that feature raised-surface dimensional effects. Crown exports more wallcovering than any other company, reaching more than 50 countries on six continents.

- Sunworthy pioneered the technology for manufacturing prepasted, dry-strippable, paper-backed wallcoverings.

- Borges, one of our 1988 acquisitions, is renowned not only for its expanded and blown

Non-Food Consumer Sales

in millions of dollars
Continuing Operations



Borden produces wallcoverings in the United States, Canada, England and West Germany.

vinyls, but also for first-rate flexographic and rotogravure printing.

- Storeys, another 1988 addition, is the world's largest supplier of heat-transfer printed papers for industrial use as well as a major wallcovering producer.

Linked together in the Borden family, the units enjoy synergies and efficiencies that weren't possible when they were stand-alone operations. In manufacturing, for example, Sunworthy and CCF both benefited when production of the latter's paper-backed line was transferred to Sunworthy's modern, larger and lower-cost facility. Storeys provided urgently needed capacity to help Crown meet market demand for expanded and blown vinyls. And Borges has quickly contributed to and benefited from the transfer of manufacturing technologies within the Borden family.

Cross-fertilization of ideas and capabilities takes place in marketing, design and distribution as well. Fabric-backed vinyls from CCF are sold to European customers through the established distribution systems of Crown and Borges. More of our European styled wallcoverings are reaching the



The **Krylon** family of decorator spray paints holds the number one share of sales in its U.S. industry category.

United States. A consolidation of the Crown and Borges distribution systems in France has created a single, streamlined operation to serve current customers and also the unified European market when trade barriers go down in 1992.

High-style, designed wallcoverings made in America came to the forefront in 1988 with the acquisition of Bob Mitchell Designs. The business gave Borden leading-edge design capability, along with modern facilities to produce the **James Seeman Studios** designer line (purchased by Borden in 1987) as well as its own line.

Borden now has solid positions over the full range of wallcovering products – designer lines, collections sold through books in traditional decorating outlets, and products for mass merchandisers and home improvement centers that sell via book collections and in-stock programs.

Acquired in May 1988, Orchard has a very special niche. It has twice the market share of any competitor in the gravure printing of paper and plastic decorative overlay products, especially wood-grain patterns. They're used by other companies to make laminates for furniture, cabinets, countertops, flooring and packaging. Through synergies with the CCF overlay business and its design and engraving group, the acquisition has expanded and strengthened Borden's position in the decorative surfacing market.

More Leadership Positions

In adhesives and spray paints, we also seek to grow by acquiring companies or businesses that would provide complementary products or geographies. New merchandising programs and innovative new products, however, have so far been our route to higher sales and profits.

Our **Elmer's – The Home Solution** marketing program has bolstered sales in hardware stores and home improvement centers. Leading the list of our newest **Elmer's** products are special adhesives for darker woods and a "Fill 'N Finish" wood filler that takes stain exceptionally well.

They join an unmatched lineup of products – **Elmer's** household and school glues, specialty adhesives, home-repair grouts and spackling compounds, contact cements, and caulks and sealants.

Krylon spray paints and coatings are making market advances as well. We offer products for home decorating, automotive, artist and industrial tasks, including the highly successful **Rust Magic** line of rust preventative paints.

Two new products promise to continue the uptrend. Early in 1989, we'll launch a family of high-fashion rich pastels, and a satin-finish spray that turns any of our glossy colors to a permanent satin.

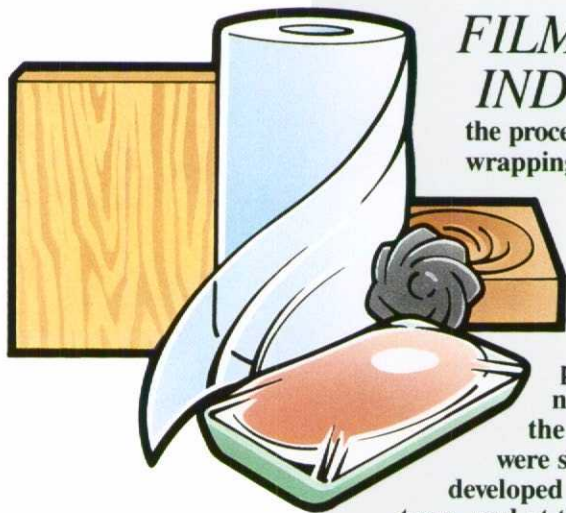


Easy-to-use **Elmer's** products, about 80 in all, are the solution to a wide range of home repair and improvement problems tackled by today's do-it-yourselfers.

6 Films and Adhesives

Though the products in our films and adhesives growth area are sold to other companies, most are just one step removed from the consumer. The area is composed of five businesses: plastic film and rigid packaging; forest products resins; industrial phenolic resins; high-technology coatings; and specialty adhesives. In each, we are among the leaders in the United States or the world.





THE FILMS and ADHESIVES INDUSTRY Delivering food and providing shelter for people around the world wouldn't be the same without films and adhesives. Meats, produce, baked goods, snacks – all foods need packaging to preserve freshness (among other functions) in the processor-to-retailer and retailer-to-customer segments of the food chain. Plastic wrapping films and rigid packaging do exactly that, economically and effectively, in supermarkets and delis and for food processors. Demand has been growing steadily – over the past five years in the United States, averaging about 9% annually for polyvinyl chloride wrapping film and nearly 11% for polypropylene film for packages.

Today's worldwide forest products industry is based heavily on adhesives that hold together the wood portion of plywood, waferboard, particleboard and oriented strandboard. These low-cost products, and newer ones such as high-strength laminated beams, have greatly stretched the utilization of wood resources compared to the days when all products were solid boards. Higher-performance adhesives must constantly be developed as the forest products industry turns to more available, but lower quality trees, and at the same time uses more glue and less wood in each product.

The films and adhesives growth area distinguishes Borden from other packaged foods companies.

The businesses date back to 1929, when we began making plywood glues from casein, a dairy product. The invention of better glues made from synthetic chemicals led us into that industry, and the businesses we entered over the ensuing years continued to flow easily, one step at a time, from our existing operations and skills.

Unlike the cyclical commodity chemicals business, films and adhesives tend to resist economic cycles and to have high margins and high returns on shareholders' equity. Equally successful businesses would be difficult to find.

This solid financial performance results from years of excellence in product innovation, manufacturing and marketing. These factors have helped Borden to achieve strong competitive positions – the key, in turn, to future prosperity.

Plastic Packaging

One of the growth area's largest segments is plastic packaging, both flexible film and rigid plastics.



A Borden technician fabricates a sample wood product for use in evaluating a new resin adhesive (left); a newly developed adhesive is used in laminated beams at the Eugene, Oregon, airport.

We make three different types of flexible film for three different applications:

- **PVC film**, under the *Resinite* and *Sealwrap* brands, for wrapping foods such as meats, produce and baked goods in supermarkets, delicatessens and other foodservice outlets. Borden is the top U.S. and worldwide producer in these markets.

- **Loadmaster** low-density polyethylene film, a palletwrap with outstanding stretch and cling. A plant expansion is nearly complete in Massachusetts, and another expansion is under way in Texas.

- **Proponite** oriented polypropylene film, used in packages for snacks, pasta, baked goods and confections. A new aluminum-metalized type sold under the *OPPtimum* trademark has quickly earned a solid market position.

Wrapping films are a global business for Borden, and we have operations in 11 countries besides the United States. In 1988 we added to

Films and Adhesives Sales

in millions of dollars
Continuing Operations



'84 '85 '86 '87 '88

International
United States



our presence in Australia by acquiring the Wrapping Specialist and Pelapack Plastics businesses, and in Brazil by acquiring Vicaplast Ltda. Capacity expansions were completed in the Netherlands and Japan.

Two 1988 acquisitions strengthened our rigid plastic packaging position in Europe, where we produce containers and lids for dairy, confectionery and other food items. We acquired the Macaple business, the largest supplier in France of plastic trays, dishes and cups to the airline and catering industries, and S.F.P.O. (Société Française des Polymères Ouvrés), another French company, which produces plastic sheet for food packaging.

Forest Products Resins

Borden is the world leader in forest products resins not only in sales, but also in low-cost manufacturing and product technology. Our size gives us unmatched purchasing power in bargaining for raw materials. We have the most efficient plants, and their locations in the United States and 10 other countries put us a big step ahead of the competition in our ability to service major customers.

Improved resin varieties are constantly under development in Borden laboratories. That's especially important today because customers are constantly demanding higher performance resins.

First, the forest products industry is turning to more readily available, but lower quality softwood trees, to produce plywood, waferboard and other structural boards. Binding these different woods requires different, and better performing, resin adhesives.

Second, as all types of wood grow more expensive, the industry is boosting the proportion of resin adhesive in its end products. New resins are needed to maintain the products' structural performance.

Higher resin content is spurring volume growth in addition to product innovation. Resin applications adding appreciably to volume include adhesives for laminated wood beams and for waferboard and oriented strandboard.

Other Businesses

Novel products for sophisticated tasks are fostering growth in other parts of the films and adhesives area as well.

Industrial resins and coatings from Borden research are popular choices in the electronics industry for fabricating computer chips and magnetic storage disks.

Applications in the aerospace, electronics and automotive industries have been developed for our industrial phenolic resins, complementing their workhorse role in brake linings, insulation and grinding materials. Borden's proprietary *ALpHASET* and *Betaset* resins for foundry applications, launched in major world markets over the past few years, continue to post sales and share gains.

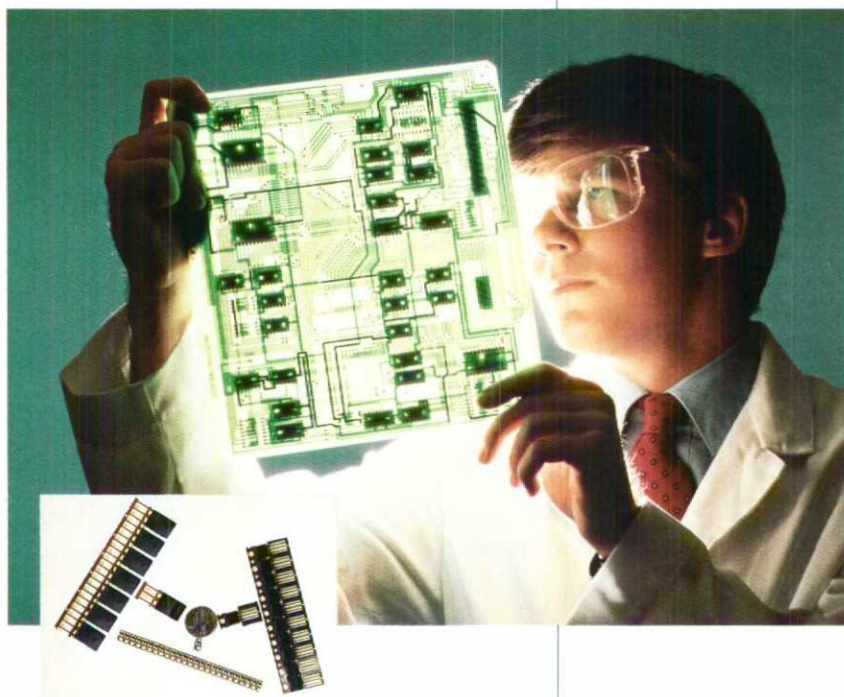
Examples of emerging end uses for industrial resins include:

- A Borden phenolic resin was used in fabricating the motor nozzles of the booster rockets that powered the liftoffs in late 1988 of the U.S. space shuttles *Discovery* and *Atlantis*.

- Borden products are recognized as the industry standard in the molding compounds used to encapsulate computer chips. Our resins also serve in photoresist systems for fabricating chips and as coatings for computer magnetic storage disks.

- High strength and heat resistance have spawned various "under-the-hood" automotive uses as metal replacements, and many more are under evaluation.

Our high-technology coatings unit produces inks, coatings and adhesives that convert instantly from wet film to dry polymer when exposed to ultraviolet light or electron beam. Interacting closely with our customers, Borden scientists have made significant technical breakthroughs, particularly in coatings for fiber optics and metal substrates, promising healthy gains in future sales.



Review of 1988

Dairy Division

Sales

in millions of dollars



Operating Income

in millions of dollars



Sales in 1988 slipped 0.9% below 1987's level. Volume held about steady for fluid milk, but ice cream and cultured products both were down.

Operating income declined 12.1%. Profit margins were squeezed, especially in the second half of the year, by unprecedented cost jumps for raw milk. Costs for raw milk were increased by dairy farmers to reflect drought-induced hikes in feed costs.

Product price increases to recover costs were restrained by fierce competition at the retail level, while consumers resisted increases at the branded, high end of the milk market where Borden is strongest.

As one step to restore profit margins for the long term, an administrative reorganization in October reduced the number of dairy groups from four to two, trimming overhead and shortening lines of communication. Division headquarters was moved at year-end to Columbus, Ohio, where Borden's other divisions and corporate staff services are located.

The consolidation of older dairy processing plants with larger, more modern facilities nearby was accelerated during the fourth quarter to improve cost efficiency in

1989 and beyond. An across-the-board reduction of positions throughout the division also was initiated.

Large, state-of-the-art dairies started up in 1988 at Salt Lake City, Utah, and Austin, Texas. In August, major new equipment began operating at the Meadow Gold facility at Champaign, Illinois. The equipment produces extended shelf-life "UHT" (ultra-high temperature) pasteurized products such as coffee cream, half-and-half and whipping cream. It is designed to meet dramatically rising demand, particularly by the foodservice industry, in all division markets east of the Mississippi River.

New Products

New products were introduced during the year to keep abreast of desires from a growing segment of consumers for dairy products with less fat and sugar, fewer calories, and yet excellent taste.

Light premium ice milk was broadly launched under both the **Borden** and **Meadow Gold** labels. The eight-flavor line features one-third less fat and calories than regular ice cream.

Three products introduced in limited markets in 1988 are slated for full rollout in 1989.

- Protein-fortified skim milk under the **Viva** and **Lite-line** brands, which combines the full-bodied taste and nutritional value of lowfat milk with all the benefits of skim;

- **Lite-line** lowfat sour cream, having half the fat of regular sour cream but the same taste and texture; and

- **Viva** sugar-free fudge bars, ice pops and other frozen novelties.

Sugar-free yogurt and chocolate milk have also been developed by Borden and will be available to consumers in early 1989.

Regional Marketing

Marketing efforts throughout the division continued to be geared toward local objectives. Both radio/print advertising and promotional efforts primarily supported local retailer needs. Additional programs scheduled for 1989 will support Borden's new product introductions.

Elsie the Cow was once again the beloved star of Borden's marketing programs in 1988. **Elsie** visited more children's hospitals, parades, conventions and trade events than ever before. To millions of Americans, she represents nutrition, good health and well-being. **Elsie's** appeal to people of all ages continues to win friends for Borden wherever she goes.



In 1989 **Elsie** enters her 53rd year of captivating consumers on behalf of Borden dairy products. She is the world's most widely used food packaging symbol.

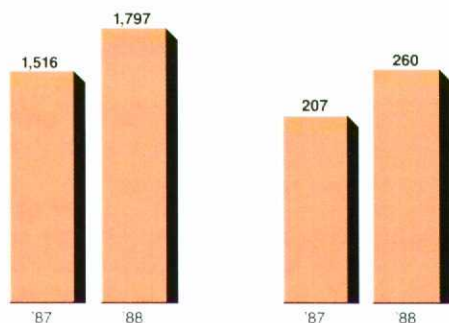
Grocery and Specialty Products Division

Sales

in millions of dollars

Operating Income

in millions of dollars



Division sales and income were up 18.5% and 25.5%, respectively, bolstered by major acquisitions over the past two years, the national expansion of **Classico** pasta sauce, and continued rapid growth in pasta.

Pasta

Sales for the year advanced 32%, and operating income rose 52%.

There was a substantial full-year contribution to the sales advance from The Prince Company, acquired in June 1987. Each of the base regional pasta units posted higher sales as well.

Another key factor was the successful rollout into the Northeast of the flagship **Creamette** brand, making it the industry's first and only nationally distributed brand.

Creamette pasta also posted significant sales gains in prior markets. A national advertising campaign was launched in April.

Major capital projects were completed in 1988 at the Phoenix, Arizona, and New Hope, Minnesota, pasta plants.

The drought during 1988 had a severe impact on the durum wheat crop and sharply raised costs. Margins were largely protected, however, by passing through higher costs in product pricing.

In September 1988, Borden entered into a multiyear agreement to be the exclusive U.S. distributor of **DeCecco** pasta, a premium product made in Italy and widely regarded as one of the world's finest.

Niche Grocery Products

The division's U.S. family of niche grocery products advanced 22% in sales and 19% in income in 1988. The sales gain reflected the national rollout of **Classico** sauce, acquisitions, and growth of existing Borden products that outpaced their industry categories.

The income gain trailed the sales advance in part because of increased marketing support for new products. There were also lags in passing

through to prices the higher costs for certain raw ingredients, especially milk for cheese.

A major investment in advertising and promotion supported the rollout of **Classico** pasta sauce and helped to build volume and share despite competitor efforts. Sales tripled to about \$50 million in 1988.

Core niche grocery brands also enjoyed solid sales gains in 1988. **Eagle Brand** sweetened condensed milk, the product Gail Borden invented and brought to market in 1857, posted a 10% rise. Similar gains were achieved for **RealLemon** reconstituted lemon juice and **None Such** mince meat. Both benefited from a particularly successful "Home for the Holidays" promotion.

Borden single-wrap cheese slices set a sales record in 1988, helped by the national expansion of Thick slices. The **Lite-line** and **Sandwich Mate** brands maintained their top positions in the low-calorie and cheese substitute categories. In late 1988, Borden began the test marketing of cheese **Toppers**, an easy-melt combination of cheese and sour cream for use over hot dishes such as vegetables and potatoes.

Seafood products posted a healthy 12% sales increase. Driving the gain were record volumes for **Snow's** and **Doxsee** clam products, full-year contributions from several 1987 acquisitions, and the 1988 purchase of the **Hilton's** line of oyster stews and chowders. A major effort in 1988 was development of a "line marketing" approach that pulls all of the seafood products under a single quality image.

Fruit products sales advanced 8%, reflecting a full year's ownership of **Laura Scudder's** peanut butter, California's leading all-natural brand; good results by **Bama** fruit



New **Chowder Starter** and **Chili Starter** products were successfully added to the **Soup Starter** line in 1988.

Retail sales of **Eagle Brand** sweetened condensed milk – "The Dessert Maker" – rise as much as 50% when it is merchandised side-by-side with produce and other ingredients of delicious desserts.



spreads despite new competition; and improved market positions for *Cary's* pure maple syrup and *Bennett's* sauces.

Sales of bouillon and dry soup products were 20% ahead of the prior year, led by

Wyler's bouillon and the *Soup Starter* line. Solid volume increases were attained by *Cremora* non-dairy creamer and *Cracker Jack* candied popcorn. Aseptic boxes of liquid *Cremora* half-and-half and non-dairy creamer entered test markets late in the year.

Specialty industrial food products grew 18% in sales. Part of the improvement stemmed from a full year of results for MCP Foods and the *Perma-Stabil* flavorings line, acquired during 1987. The balance reflected higher sales in the existing business, especially via new proprietary flavorings and gains in the sales of swiss cheese to other food processors.

Three 1988 acquisitions greatly enhanced Borden's position as a supplier to the foodservice industry:

Serv-A-Portion in May, and in December, both the portion pack foods business of McCormick & Company and the Gregg/Re-Mi Foods

Group. Programs to integrate these units with Borden's prior foodservice grocery businesses are under way.

Non-Food Consumer

A sharper focus on do-it-yourself products for home improvement led to the divestment in 1988 of the car-care business and the Sterling Plastics unit.

Sales grew 10% in the continuing operations – *Krylon* spray paints and *Elmer's* adhesives – and income rose 19%.

A modest pickup in share of sales strengthened the *Krylon* brand's position as the leading decorator spray paint line.

The primary growth for *Elmer's* came from household products such as wood glues and wood fillers. *Elmer's* white glue continued to lead its market segment.

Canada

Volume gains in all of Borden's key consumer product lines lifted sales 20% over the prior year, and income was up to a greater extent. Brands in Canada include *Eagle Brand*, *RealLemon*, *Cracker Jack*, *Krylon* and *Elmer's*. The May 1988 purchase of *Highliner* canned seafood products added to sales.

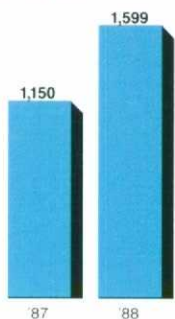


Borden brands of canned seafood specialties hold the number one share of U.S. sales for chowders, clams, shrimp, crabmeat, oysters and clam juice.

Snacks and International Consumer Products Division

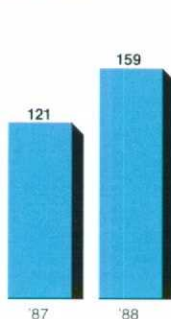
Sales

in millions of dollars



Operating Income

in millions of dollars



Gains of 38.9% in division sales and 31.9% in operating income were achieved in 1988 from continued improvements in the base businesses and the excellent performance of acquisitions over the past two years.

Both the domestic and international units contributed. Domestic sales rose 40.7% from 1987 to \$912.3 million, while operating income advanced 36.2% to \$79.2 million. International sales were up 36.7% to \$686.2 million, and income increased 27.8% to \$79.9 million.

Domestic Operations

Snacks

Snack sales soared 53% in 1988. Much of the gain reflected full-year contributions from The Snacktime Company and Laura Scudder's, Inc. (acquired during 1987) and the February 1988 purchase of Humpty Dumpty Foods Limited. There were also substantial advances by several base snack units, led by Clover Club Foods Company, Jays Foods, Inc. and Guy's Foods, Inc.

The outstanding marketing success of the year was *Krunchers!*, a premium, kettle-cooked potato chip introduced to consumers in 1986 by Snacktime. 1988 sales of about \$35 million were double the prior-year level, as *Krunchers!* gained share in its initial markets and was launched into new areas by other Borden snack companies. Available now in 19 states, with more upcoming, *Krunchers!* chips are already the number one U.S. kettle-cooked brand. An Alfredo flavor was introduced at year-end to complement *Krunchers!* in original, mesquite barbeque and jalapeno flavors.

The Humpty Dumpty acquisition extended Borden's network of regional snack companies into Canada. Humpty Dumpty operates three state-of-the-art plants and is a major snack marketer throughout eastern Canada.

Other acquisitions during the year were the **Crane's** potato chip brand and distribution system in Illinois in March and Red Seal Snack Co. in Colorado in May.

Operating income was up 34% in 1988, also reflecting acquisitions and gains from the prior businesses, especially Guy's, Clover Club and (on a comparable basis) Snacktime. The advance was achieved despite a late-year squeeze on profit margins from the U.S. drought, which sharply raised the cost of potatoes, corn and cooking oils.

To lower production costs, four less efficient plants were phased out during 1988 and January 1989. Major expansions were completed by Wise Foods at Spartanburg, South Carolina, and Berwick, Pennsylvania, and an expansion was announced for the Hartland, New Brunswick, facility of Humpty Dumpty.

Coco Lopez Sales

Sales were up modestly in 1988, as **Coco Lopez** cream of coconut maintained its leading position in supermarkets and foodservice.

Puerto Rico

Operating income rose 20% in 1988, led by a strong gain in the Industrias La Famosa juices and nectars unit (including the business acquired from Carolina Foods in August) and profits from the Mantecados Nevada, Inc. ice cream operation acquired in January 1988. Caribbean Snacks also contributed to higher income. Total sales were off 13%, however, because of the early 1988 divestment of the frozen foods distribution operations.

International Consumer Products

Milk Powder

Export volumes and dollar sales of **KLIM** whole milk powder set records in 1988 – **KLIM's** 60th year as part of Borden. Strong volume growth in established markets (including Taiwan, Indonesia, Bolivia and Zaire) was augmented by the launch or re-introduction of

KLIM milk powder in markets such as Ghana, Mali and Djibouti.

Operating income rose substantially in Colombia, about offsetting a decline in the above export operations. An organizational restructuring and new marketing initiatives lifted sales in Colombia, where **KLIM** milk powder is produced for local consumption. Though sales and income declined in the Panamanian unit as a result of national economic unrest, unit performance was restored to normal levels by year-end.

Europe

Gallina Blanca, S.A., an unconsolidated affiliate in Spain, had an outstanding year. Sales were strong domestically and in exports to West Africa and Central America. Numerous product introductions were paced by an instant soup line that won nearly the same 60% share of industry sales enjoyed by Gallina Blanca's standard soups. A plant modernization/expansion is under way for bouillon and soup.

The Creccspan salty snack unit in Spain also posted higher sales and improved results.

In April 1988, Borden entered the U.K. salty snack market by purchasing Sooner Snacks Limited (formerly Rowntree Snacks). The company produces well-known brands of potato chips and nuts, as well as lines of wheat- and corn-based snacks that are growing at twice the industry rate.

Borden's European pasta base – established in 1987 with the acquisition of Albadoro S.p.A., a strong regional producer in northwestern Italy – was solidified in August 1988 with the purchase of Monder Aliment S.p.A., a leading national marketer in Italy of dry-filled ravioli and tortellini. Both companies are stepping up exports to establish a substantial presence throughout Europe.

Sharp sales and income gains in the West German sweet baked snacks and specialty breads business included contributions from 1987 acquisitions and the April 1988 addition of the **Nuschelberg** chain of retail bakeries in Nuremberg. More retail stores were opened in the regional **Nur Hier** and **Stefansback** chains as well. Borden's largest and flagship bakery unit – the Wilhelm Weber GmbH commercial bakery – successfully integrated the Karl Jaus & Sohne bakery acquired in 1987, strengthening its number one position in southwestern and central Germany.

Continued success with new products and a focus on expanding exports helped the **Suzu** waffle business in Belgium to another year of higher sales and income.

The **Cocio** chocolate milk business in Denmark showed higher sales and income.



Borden Home Made superpremium ice cream is one of the most popular food items purchased by the riders on Japan's world renowned bullet train.



Hand-held computers used by snack driver salespersons offer higher productivity through fast, onsite invoicing, and also enhance Borden's ability to control inventories and analyze market trends.

Far East

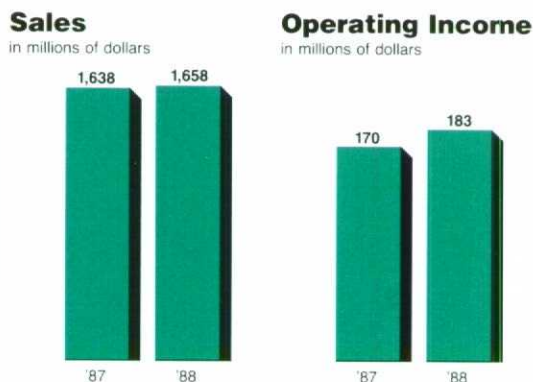
The division manages both consumer and non-consumer businesses in the Far East.

A strong sales advance and an even sharper income gain were posted by Meiji-Borden, Inc., a joint venture company that is Japan's second-largest producer of individually wrapped cheese slices. Sales also rose for *Lady Borden* and *Borden Home Made* ice creams. Manufactured under license by Meiji Milk Products Co., the brands together hold more than a 70% share of sales for premium/superpremium ice cream.

Volume was up across the board in the Far East packaging and industrial products units, lifting sales and income considerably. The plastic wrapping film operation in Australia was expanded with two small acquisitions (Wrapping Specialist and Pelapack Plastics), and new capacity was brought into operation by Hitachi-Borden Chemical Products, Inc., a joint venture in Japan.

Sales were up for forest products adhesives in Australia, Malaysia and the Philippines, and Borden markedly expanded its presence in foundry resins in Australia.

Packaging and Industrial Products Division / Domestic and International



To reflect a shift away from commodity chemicals, the former Chemical Division was re-named the Packaging and Industrial Products Division, effective January 1989.

The division's worldwide operating income rose 7.7% in 1988 on a sales gain of 1.2%. Domestic sales increased 23.8% on a continuing operations basis; reported sales of \$1,115.2 million were 6.1% lower principally because of the late 1987 divestment of the commodity chemicals business. Domestic income rose 1.5% to \$146.5 million. International sales increased 20.6% to \$543.0 million, and operating income was up 43.3% to \$36.1 million.

Domestic Operations

Films and Adhesives

Packaging films posted higher sales and income in 1988. *Resinite* film continued to be the most widely used polyvinyl chloride film for food wrap, while *Loadmaster* linear low-density polyethylene film maintained its position as one of the leading brands for pallet wrap. An expansion for *Loadmaster* film is nearly complete at North Andover, Massachusetts, and another expansion is under way at Gainesville, Texas.

The successful launch of *OPptimum* aluminum metallized film helped to lift sales of polypropylene film to a record level. Sold principally under the *Proponite* brand, polypropylene film serves in snack, pasta, confectionery, bakery and other packaging applications.

The Vernon Plastics unit posted higher sales, while continuing to emphasize value-added laminates such as new products for hospital mattress covering and banner fabric. The Fabric Leather unit ceased operation during the year.

Sales and profitability in the Canadian film group advanced in step with share gains and stabilization of raw material costs.

The U.S. forest products resins business matched its prior-year income despite tight supplies and significant cost increases for raw materials. Product sales volumes benefited from Borden's development and launch of high-value-added resin adhesives.

A new facility for resins and formaldehyde went into operation early in 1988 in Fayetteville, North Carolina. Expansions were also completed at Springfield, Oregon, and Diboll, Texas. The integration of Perkins Industries, Inc. (acquired in September 1987) into the Borden network resulted not only in administrative efficiencies, but also valuable sharing of technologies.

Forest products operations in Canada achieved record volumes and sales, sparked by strong housing starts and a successful new powder resin for waferboard. New capacity at Laval, Quebec, is scheduled for operation early in 1989.

Sales increased for Acme Resin Corporation. A resurgence in the foundry industry boosted overall product demand. Acme also achieved share gains for its urethane resins and refractory coatings, and expanded its market for the proprietary *ALpHASET* and *Betaset* phenolic resins. Acme's resin-coated products for the oil industry also performed well.

Borden continued to develop products for other high-technology tasks, including:

- An expanding family of phenolic resins

for electronics, automotive and aircraft/aerospace uses;

- High-purity resins to encapsulate computer chips and coatings for magnetic storage disks;

- **LUV** brand coatings, cured by ultraviolet light or electronic beam, for fiber optics, graphic arts, and use over various metal, plastic and film substrates.

Wallcoverings

Though domestic wallcovering sales by Columbus Coated Fabrics held steady during 1988, operating income was lower. A realignment of the sales organization was announced late in the year, along with actions that improved manufacturing efficiency.

The Bob Mitchell Designs business was acquired in February 1988, becoming the centerpiece of Borden's expanding presence in high-fashion wallcoverings.

The Orchard Corporation of America – another 1988 acquisition – is the largest U.S. rotogravure printer of decorative overlay products for the laminating industries.

Borden's non-U.S. wallcovering operations expanded significantly. In February 1988, Borden established a position in West Germany by completing the purchase of Borges GmbH, and in April it acquired Storeys Decorative Products Limited to complement an already strong presence in the United Kingdom through Crown Wallcoverings Limited.

All four acquisitions performed well during the year, and sales also advanced for Crown and for Sunworthy Wallcoverings in Canada. Sunworthy gained share both in its home market and in exports to the United States. Higher raw material costs, however, held 1988 total income for the non-U.S. operations to only slightly above the prior year.

Major capital projects were completed during 1988 to increase capacity in key growth areas (such as expanded vinyls and silkscreen printing) and to improve production efficiency.

Basic Chemicals and Plastics

Borden Chemicals and Plastics Limited Partnership, a publicly traded partnership, acquired Borden, Inc.'s basic chemicals and plastic resins operations in November 1987. Borden subsidiaries retained management responsibility and a 25% interest in the Partnership until December 1988, when Borden reduced its ownership to a 2% general partner interest. The 1988 contribution to Borden income thus declined, representing only these partial interests during the year and management incentive fees. The decline was tempered by excellent Partnership performance owing to record volumes, higher prices and operating efficiencies.

International

Latin America

Alba Quimica Ltda. in Brazil achieved higher sales volume and dollars for its packaging, industrial products and non-food consumer products, despite turmoil in the hyperinflationary economy. The unit's plastic packaging business was expanded with the February 1988 purchase of Vicaplast Ltda.

Adria pasta, Brazil's leading national brand, and the **Raineri** regional brand acquired in February strengthened their market positions. Government controls, however, restrained product price increases.

Operating income was up for both units, but excess financing costs offset the gains.

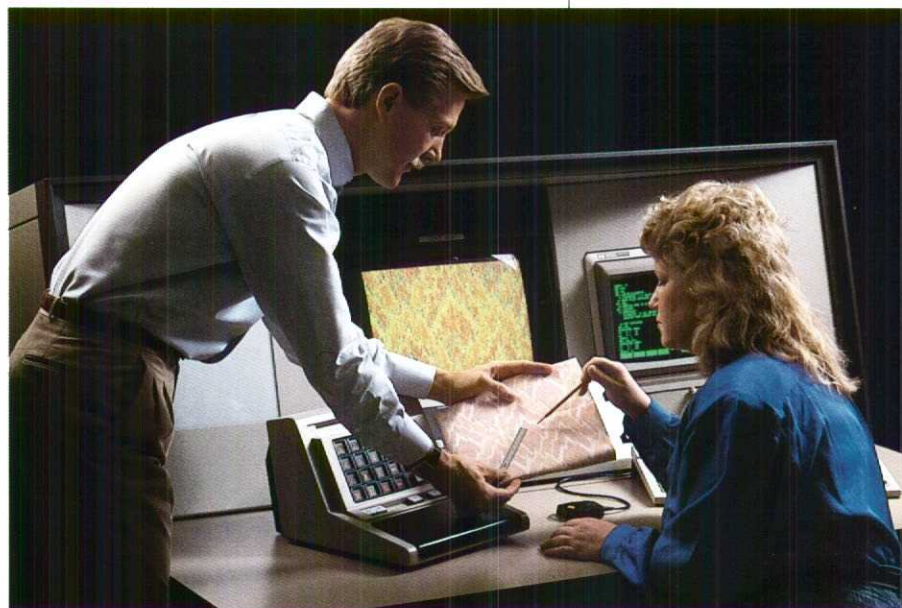
The forest products and packaging operations in Argentina had record sales and income.

Europe

The packaging and industrial products units both contributed about equally to a significant advance in sales in 1988.

Packaging operations were especially strong in the United Kingdom, for both flexible and rigid products. The European business was strengthened with the purchase of two French businesses, Macaple, a producer of trays, dishes, cups and other items for the airline and catering industries, and S.F.P.O. (Société Française des Polymères Ouvrés), a producer of rigid packaging materials.

The forest products resins units in Spain and the United Kingdom each achieved higher sales through share gains and advanced new products. With production of **ALpHASET** and **Betaset** foundry resins at record levels in those nations and in France as well, Borden attained the top market position in Europe.



Orchard applies its state-of-the-art computer design skills to wallcovering design projects as well as its own work with decorative overlays.

Social Responsibility

Borden demonstrates its commitment to be a responsible corporate citizen through employment policies and practices, minority purchasing activities, and grants by the Borden Foundation to address the challenges of our society.

Affirmative action hiring and promotion goals at each Company location help us to achieve the principles of equal opportunity in employment. We act immediately to ensure that our commitment to fair representation also exists throughout each of the companies and businesses we acquire.

Our programs are designed to heighten the awareness of managers, to attract women and minorities, and to establish regular communication with minority and female recruiting sources. Borden's success was illustrated in 1988 by:

- A total domestic workforce that was 24.1% minority, far above the 18% national average;
- Minority representation of 13% in the top four workforce job categories (officials / managers, professionals, sales and technicians), compared with 11.5% nationally; and
- A continued climb in the representation of women to record levels of 25% of all jobs and 11.1% of jobs in the top four categories.

The Company also held to a steady pattern of growth in its purchases from minority suppliers, achieving an increase of \$4.8 million in 1988 to a total of \$68.9 million. Significant minority suppliers new to Borden in 1988 included the Park Sausage

Company of Baltimore, Maryland, serving our growing pasta sauce business, and the Navajo Indians, supplying potatoes to Borden snack food companies. Borden also maintained a 30% share, amounting to \$65 million in 1988, of its total tax payments through minority-owned banks.

In direct support of the Company's minority purchasing and affirmative action efforts, The Borden Foundation, the Company's conduit for charitable contributions, initiated and funded an economic development project with the Interracial Council of Business Opportunity and the New York/New Jersey Minority Purchasing Council. In the joint project with Borden, the two organizations provided technical assistance to minority-owned firms to enable them to increase their private-sector sales.

Through grants to National Urban League chapters in 10 cities with significant Company presence, the Foundation also helped provide disadvantaged children with enhanced health care, education and experiences in the arts.

Of the Foundation's total grant dollars, 44% supported health and human services organizations, including United Fund agencies in 134 Company locations. Educational programs and institutions received 26% of the total grant dollars.

The Borden Matching Gifts Program marked a 40% increase in the value of gifts to organizations in the areas of health, higher education, and the cultural and performing arts.

Changes in Directors and Officers

Franklin H. Williams, president of the Phelps-Stokes Fund, retired from the Board in April 1988 after 11 years of dedicated service. Mr. Williams has been designated an advisory director.

Richard W. Fowlkes was elected president of the Dairy Division and a corporate executive vice president, effective July 1988, and was also named a member of the Office of the Chairman. Mr. Fowlkes joined Borden's dairy unit in 1955 and has advanced steadily through positions in sales, personnel, and regional and group management.

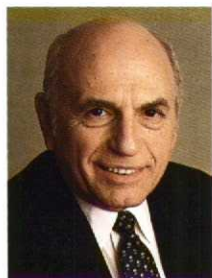
Mr. Fowlkes succeeded H. Wayne Mosley, who retired in June 1988 after a 32-year career in Borden dairy.

In January 1989, the Board:

- Elevated Alfred S. Cummin to corporate senior vice president, science and technology. Dr. Cummin joined Borden in 1969 as a technical director and had been vice president, science and technology, since 1981.
- Promoted Frank L. Florian to corporate senior vice president, planning. Mr. Florian joined Borden in 1970 and had been vice president, planning, since 1979, and executive assistant to the president from 1971.
- Elected Joseph A. McCahery a corporate vice president. He continues in the general auditor position he has held since 1973. Mr. McCahery served in the controller's department upon joining Borden in 1969.

Officers

Office of the Chairman



R. J. VENTRES
Chairman and
Chief Executive Officer



A. S. D'AMATO
Executive Vice President
President, Packaging and
Industrial Products Division/
Domestic and International



RICHARD W. FOWLKES
Executive Vice President
President, Dairy Division



JON G. HETTINGER
Executive Vice President
President, Grocery and
Specialty Products Division



GEORGE J. WAYDO
Executive Vice President
President, Snacks and
International Consumer
Products Division

CORPORATE SENIOR VICE PRESIDENTS

LAWRENCE O. DOZA
Chief Financial Officer

ALLAN L. MILLER
Chief Administrative Officer

ALFRED S. CUMMIN
Science and Technology

FRANK L. FLORIAN
Planning

DIVISION EXECUTIVES Dairy Division

ROBERT M. MALONEY
Group Vice President-Borden East

Grocery and Specialty Products Division

LEE N. ARST
Group Vice President-Confection and
Main Meals

JERRY C. CLOWDUS
Group Vice President-Foodservice and
Industrial

JOHN F. DIX
Group Vice President-Desserts and
Non-Food

L. JOHN WESTERBERG
Group Vice President-Pasta

Packaging and Industrial Products Division / Domestic and International

JOSEPH M. SAGGESE
Senior Group Vice President-
Adhesives, Resins and Coatings

JOHN S. BELLECCI
Group Vice President-Basic Chemicals &
PVC Operations

BENEDICT LETIZIA
Group Vice President-International

Snacks and International Consumer Products Division

DAN O'RIORDAN
Senior Group Vice President-International

PETER M. DUGGAN
Group Vice President-Snacks

CORPORATE VICE PRESIDENTS

JAMES M. HESS
General Controller

KAREN L. JOHNSON
Consumer Affairs

DAVID A. KELLY
Treasurer

WALTER W. KOCHER
General Counsel

JOSEPH A. McCAHERY
General Auditor

JAMES T. McCRORY
Public Affairs

FRANK H. VOIGT
Employee Relations

STAFF DEPARTMENTS

ROBERT G. TRITSCH
Secretary

H. CORT DOUGHTY, JR.
Assistant Secretary

RICHARD H. BYRD
Assistant Treasurer

FRED J. CHRVALA
Assistant Treasurer

TERRENCE W. GASPER
Assistant Treasurer

GEORGE W. SANBORN
Assistant Treasurer

L. CLARKE BUDLONG
Assistant General Controller

EDMUND M. KONOPKA
Assistant General Controller

PAUL J. JOSENHANS
Associate General Counsel

LAWRENCE L. DIEKER
Assistant General Counsel

JAMES A. KING, JR.
Assistant General Counsel

RONALD P. MORAN
Assistant General Counsel

JUDY BARKER
President, The Borden Foundation

Directors



Theodore Cooper, M.D.



Virginia Dwyer



Wilbert J. LeMelle

THEODORE COOPER, M.D.
Chairman of the Board and Chief Executive Officer
The Upjohn Company
(Pharmaceuticals)

VIRGINIA DWYER
Former Senior Vice President - Finance
American Telephone and Telegraph Company

WILBERT J. LeMELLE
President
Mercy College



John W. Lynn



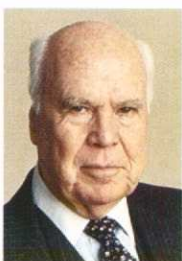
Robert T. Quittmeyer

JOHN W. LYNN
Retired Chairman and Chief Executive Officer
F.W. Woolworth Co.
(Retail merchandising)

ROBERT T. QUITTMEYER
Former Chairman and Chief Executive Officer
Amstar Corporation
(Sweeteners-industrial and technical products)



Patricia Carry Stewart



Eugene J. Sullivan



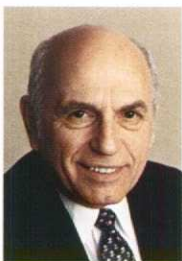
Frank J. Tasco

PATRICIA CARRY STEWART
Vice President
The Edna McConnell Clark Foundation
(Charitable foundation)

EUGENE J. SULLIVAN
Chairman of the Executive Committee
Former Chairman and Chief Executive Officer

FRANK J. TASCO
Chairman of the Board and Chief Executive Officer
Marsh & McLennan Companies, Inc.
(Insurance brokerage, consulting and investment services)

R. J. VENTRES
Chairman and Chief Executive Officer



R. J. Ventres



Pieter C. Vink

PIETER C. VINK
Retired Chairman
North American Philips Corporation
(Electrical/electronic manufacturing)

Sales and Earnings

Sales for 1988 increased 11.2% to \$7.244 billion from \$6.514 billion in 1987. Net income for 1988 reached an all time high of \$311.9 million, an increase of 16.8% over \$267.1 million in 1987. Earnings per share were \$4.22, an increase of 16.6% from \$3.62 in 1987.

Dividends

Dividends for 1988 were \$1.49 per share, an increase of 20.2% over 1987. The increase in 1988 represents the fifteenth consecutive yearly increase. Dividends have been paid without interruption for 90 years. Future dividends and the amount thereof will depend upon earnings, cash requirements and other relevant factors.

Return on Average Shareholders' Equity

Return on average shareholders' equity was 17.8% in 1988 and 17.2% in 1987.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Borden is primarily engaged in purchasing, manufacturing, processing and distributing a broad range of dairy products, snacks, pasta, niche grocery products, non-food consumer products and films and adhesives both domestically and in foreign countries.

Borden operates in two major industry segments: the foods segment and the non-food consumer and industrial segment. Internally, Borden is organized into four operating divisions: Dairy; Grocery and Specialty Products; Packaging and Industrial Products/Domestic and International; and, Snacks and International Consumer Products. The foods segment encompasses primarily the Dairy Division; the Grocery and Specialty Products Division; and, the Snacks and International Consumer Products Division. The non-food consumer and industrial segment encompasses primarily the Packaging and Industrial Products Division/Domestic and International. For administrative purposes certain non-food consumer and industrial segment operations are included in the Grocery and Specialty Products and the Snacks and International Consumer Products Divisions; and, certain

foods segment operations are included in the Packaging and Industrial Products Division/Domestic and International. A breakdown of the Company's sales, operating profit and other information between the foods and non-food consumer and industrial industry segments is presented on pages 37 and 38. A three-year summary of sales and operating income by the four operating divisions is presented on page 34. A discussion of the results achieved, financial position and cash flows in both industry segments, in terms of the Company as a whole, and its divisions for the three most recent years follows.

Liquidity and Capital Resources

Borden meets the majority of its operating cash requirements through operations. The amounts provided from operating activities in 1988, 1987 and 1986 were \$120.4 million, \$318.9 million and \$372.8 million, respectively. Funds provided from operating activities for 1988 reflect tax payments of \$343.5 million compared to \$189.0 million in 1987. The 1988 payments include the payment of taxes deferred in prior years in connection with the 1987 divestiture of the Company's basic chemicals and PVC resins business.

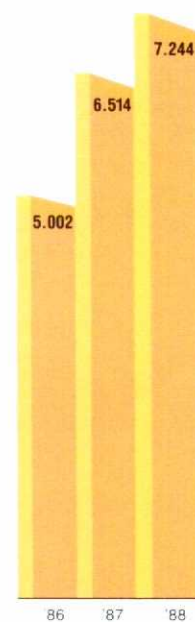
Short-term borrowings are utilized to meet temporary cash requirements. See Note 3 of the Notes to Consolidated Financial Statements for further information regarding short-term borrowings.

Borden borrows domestically at commercial paper rates and has credit agreements available with domestic and foreign lending institutions to support commercial paper borrowing of approximately \$565.0 million. The credit agreements bear interest, if used, at approximately the prime rate, or less, in effect at the date of use. Additional unused lines of credit totaling \$213.0 million at December 31, 1988 are available for use by foreign subsidiaries.

At December 31, 1988 and 1987, \$300.0 million of commercial paper was classified as long-term debt because the Company has both the intent and ability, through its credit facilities, to maintain such amount of debt for more than one year.

In 1988, 1987 and 1986, long-term debt financing provided \$118.4 million, \$751.9 million and \$519.3 million, respectively.

Sales
In billions of dollars



Income and Dividends Per Share
in dollars



Three Year Comparison of Division Sales and Operating Income

BORDEN, INC.

(Dollars In Thousands)	For the Years	1988		1987		1986	
Division Sales							
Dairy		\$2,189,626	30%	\$2,210,085	34%	\$1,331,070	26%
Grocery and Specialty Products		1,797,132	25	1,516,087	23	1,192,380	24
Packaging and Industrial Products/ Domestic and International		1,658,216	23	1,637,753	25	1,443,097	29
Snacks and International Consumer Products		1,598,552	22	1,150,497	18	1,035,550	21
Total		<u>\$7,243,526</u>	<u>100%</u>	<u>\$6,514,422</u>	<u>100%</u>	<u>\$5,002,097</u>	<u>100%</u>
Division Operating Income							
Dairy		\$ 102,286	14%	\$ 116,343	19%	\$ 79,121	16%
Grocery and Specialty Products		260,344	37	207,380	34	168,733	34
Packaging and Industrial Products/ Domestic and International		182,636	26	169,538	27	137,059	27
Snacks and International Consumer Products		159,095	23	120,653	20	114,047	23
Total		<u>704,361</u>	<u>100%</u>	<u>613,914</u>	<u>100%</u>	<u>498,960</u>	<u>100%</u>
Other income and expenses not allocable to divisions and income taxes		(392,479)		(346,858)		(275,648)	
NET INCOME		<u>\$ 311,882</u>		<u>\$ 267,056</u>		<u>\$ 223,312</u>	

Return on Average Shareholders' Equity

% Return



Long-term debt financing in 1988 consisted primarily of debt incurred to acquire a foreign subsidiary, which included the issuance of 5-year, 10% Canadian Dollar Notes, and other borrowings used to refinance certain foreign debt.

Long-term debt financing in 1987 included the proceeds from a \$315.0 million issuance of Medium Term Notes, the proceeds from \$300.0 million of commercial paper classified as long-term debt, and the proceeds from a \$125.0 million issuance of 10-year, 9 7/8% Notes. The proceeds from the Medium Term Notes were used to repay commercial paper classified as long-term debt at December 31, 1986. The proceeds from the commercial paper classified as long-term debt were used to finance the purchase of businesses and to retire \$100.0 million of 12 1/2% Eurodollar Extendible Notes. The proceeds from the issuance of the 9 7/8% Notes were used primarily to repay short-term debt.

Long-term debt financing in 1986 included the proceeds from a \$200.0 million offering of 30-year, 8 3/4% sinking fund debentures, which were used to repay commercial paper classified as long-term debt at December 31, 1985, and the proceeds from \$315.0 million of commercial paper classified as long-term debt which served as bridge financing for the Meadow Gold dairies acquisition and was retired in 1987 with the proceeds from the Medium Term Notes.

Debt payable within one year increased \$123.6 million in 1988, decreased \$71.2 million in 1987, and increased \$41.3 million in 1986.

The Company's strong financial position and history of growth in earnings provide a solid base for obtaining substantial financial resources. At December 31, 1988 the Company has the ability to borrow up to \$475.0 million under shelf registration statements which provides the Company with the flexibility to enter the debt market quickly and take advantage of favorable market conditions. If required, management believes that cash could be raised through additional long-term borrowings.

In December 1987, the Financial Accounting Standards Board issued FASB Statement No. 96 "Accounting for Income Taxes," which must be adopted no later than first quarter 1990. The effect of adoption may be reported either prospectively in the year of adoption or through restatement of one or more prior years. Because changes and/or interpretations may be forthcoming, the Company has not yet determined when it will adopt FASB Statement No. 96 or whether it will be applied prospectively or retroactively. The effect such adoption will have on the Company's operating results has not yet been determined.

During 1987, the Company completed a restructuring of its commodity chemicals

and plastics assets through the formation of Borden Chemicals and Plastics Limited Partnership (the Partnership). The Company contributed its basic chemicals and PVC resins business and assets to the Partnership in exchange for 100% of the Partnership's preference and common units, the general partner interest in the Partnership and \$148.4 million net proceeds from the issuance to certain financial institutions of \$150.0 million principal amount of senior notes which were issued by the subsidiary operating partnership of the Partnership. Also in 1987, the Company, through a wholly-owned subsidiary, sold all of the preference units in two separate underwritten public offerings for which it received net proceeds of \$264.1 million. The 1987 restructuring transactions converted assets previously committed to commodity products into \$412.5 million in cash which provided the Company with funds for general corporate purposes and its acquisition program in its six strategic growth areas. In December 1988, the preference unitholders approved amendments to the partnership agreement which, among other things, allowed Borden to sell the common units, which it was previously required to retain for at least ten years, in an underwritten public offering. The sale of the common units in December 1988 provided \$137.7 million in cash to be used for general corporate purposes. The gain from the sale was substantially offset by expenses of the offering and other nonrecurring items, including costs of the administrative reorganization of the Dairy Division. After the sale of the common units, the Company and its subsidiaries retain an aggregate 2% general partner interest in the Partnership and its subsidiary operating partnership. The Company has agreed to remain as general partner until the year 2002, subject to certain limitations.

Besides providing funds for general corporate purposes and the Company's six strategic growth areas, the partnership structure affords the Company, under its own management, a reliable supply of certain raw materials required by its downstream packaging and industrial products operations. The supply of raw materials to the Company from the Partnership is covered by fifteen-year purchase and processing agreements at quantities based upon the Company's requirements and at prices which approximate market.

During 1988, the Company acquired 24 operations for a total cost of \$379.9 million (\$402.5 million including debt assumed). The 1988 acquisitions include two dairy operations, four snacks operations, two pasta operations, two seafood specialty operations, a West German bakery, three industrial food service operations, a juices and nectars business, three wallcovering manufacturers, a gravure printing and plastic laminate business and five plastic packaging manufacturers. During 1987, the Company acquired 23 operations for a total cost of \$442.6 million. The 1987 acquisitions include four dairy operations, two snacks operations, three pasta operations, three seafood specialty operations, two West German bakeries, two food flavoring businesses, a bouillon operation, a dehydrated soup operation, two wallcovering distributors and three packaging operations. Acquisitions during 1986, with a total cost of \$556.2 million, include the Meadow Gold dairies, three pasta operations, a dehydrated soup and pasta manufacturer, a snacks operation, a producer of clam products, a substitute cheese operation, two wallcovering distributors, and an industrial resins operation.

Borden is actively engaged in complying with environmental protection laws, as well as the various federal and state statutes and regulations relating to manufacturing, processing, and distributing its many products. In this connection, Borden incurred approximately \$5.5 million of capital expenditures in 1988 as compared to \$13.2 million in 1987 and \$5.2 million in 1986. It is estimated that Borden will spend \$11.6 million for environmental control facilities during 1989.

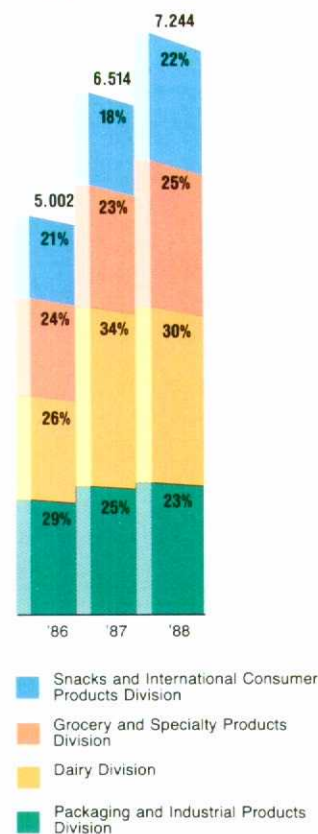
In 1988, the Company acquired .9 million treasury shares at a cost of \$47.9 million. In 1987 and 1986 it acquired .6 million shares at a cost of \$25.2 million and 3.9 million shares at a cost of \$144.8 million, respectively. Treasury shares on hand and any additional shares which may be purchased in 1989 will be held for general corporate purposes including possible future acquisitions.

Results of Operations

Borden's operating divisions must deal with intense competition on the local and national level, both in the United States and overseas. Advertising and promotion expenditures were increased to \$455.2 million in 1988 from \$377.9 million in 1987 and \$285.1 million

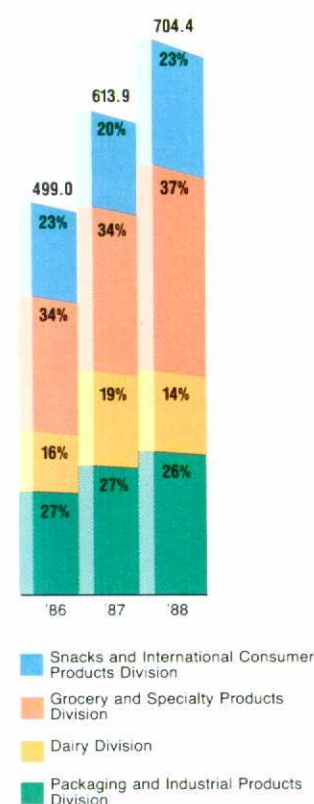
Sales by Division

In billions of dollars

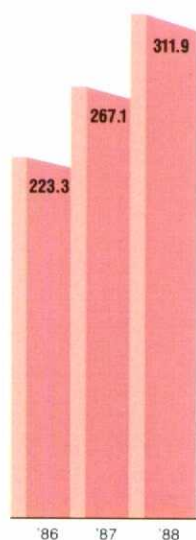


Operating Income by Division

In millions of dollars



Net Income
In millions of dollars



in 1986 in order to preserve and expand Borden's market share.

Research and development expenditures were \$26.7 million in 1988, \$25.0 million in 1987 and \$22.7 million in 1986. The development and marketing of new food and packaging and industrial products is carried out at the division level and is integrated with quality controls for existing product lines.

Net sales in 1988 increased 11.2% to a record \$7.244 billion from 1987 sales of \$6.514 billion. The 1987 sales increased 30.2% from 1986 sales of \$5.002 billion.

Earnings per share rose 16.6% to \$4.22 from \$3.62 in 1987. Earnings per share in 1987 exceeded the 1986 mark of \$3.00 by 20.7%. Net income increased to a new high of \$311.9 million, a 16.8% increase from \$267.1 million in 1987. The 1987 amount was 19.6% higher than the \$223.3 million for 1986.

Income taxes in 1988 were \$232.7 million versus \$206.2 million in 1987, which is primarily the result of higher income in 1988 being somewhat offset by a reduction in the effective income tax rate from 43.6% for 1987 to 42.7% for 1988. Income taxes in 1986 were \$166.9 million which resulted in an effective income tax rate of 42.8%.

Division operating income for 1988, as discussed below, increased \$90.5 million to \$704.4 million from \$613.9 million in 1987. Operating income in 1987 was increased from the 1986 amount of \$499.0 million.

The Dairy Division's 1988 sales decreased .9% to \$2.190 billion from \$2.210 billion in 1987. Operating income decreased 12.1% to \$102.3 million from \$116.3 million in 1987. The decrease in sales reflects a slight increase in volume offset by a decline in average selling price due to a change in product mix. The decline in operating income was due to higher raw milk costs resulting from the drought which could not be fully passed through to the consumer. The Division's 1987 sales increased 66.0% and operating profit increased 47.0% from 1986 levels, primarily due to the inclusion of results for the Meadow Gold dairies.

The Grocery and Specialty Products Division's 1988 sales increased 18.5% to \$1.797 billion from \$1.516 billion in 1987. Operating income increased 25.5% to \$260.3 million from \$207.4 million in 1987. The increase in sales was primarily the result of a healthy increase in pasta sales, as well as 1988 and 1987 acquisitions. The increase in operating income was accomplished through acquisi-

tions, cost efficiencies achieved by integrating production requirements and other benefits from consolidation of distribution, selling and administrative functions. The Division's 1987 sales increased 27.1% while operating income increased 22.9% from 1986, primarily as a result of increased pasta sales, strong merchandising activities, and cost efficiencies.

The Packaging and Industrial Products Division/Domestic and International's 1988 sales increased 1.2% to \$1.658 billion from \$1.638 billion in 1987. Operating income increased 7.7% to \$182.6 million from the \$169.5 million level the year earlier. The increase in sales resulted from improved pricing and strong volumes, offset by foregone sales due to the divestiture of the basic chemicals and PVC resins operations. Sales from continuing operations were up 22.7% during 1988. Decreased operating income from the wallcovering operations were more than offset by moderate income improvements in other operations. The Division's 1987 sales increased 13.5% from 1986, while operating income increased 23.7% due primarily to improved pricing for basic chemicals and PVC resins and stronger demand for packaging and industrial products.

The Snacks and International Consumer Products Division's 1988 sales increased 38.9% to \$1.599 billion from \$1.150 billion in 1987. Operating income increased 31.9% to \$159.1 million from \$120.7 million in 1987. The increase in both sales and operating income was primarily the result of acquisitions, the introduction of new products and an increase of business in Spain. The Division's 1987 sales increased 11.1% from 1986 and operating income increased 5.8%. The domestic snacks group benefited in 1987 from favorable commodity prices, cost efficiencies from capital projects, production consolidations and sales growth. The results of the international consumer products group were favorably affected by the acquisitions of the West German bakeries and cost reductions.

Inflation

Inflation in the U.S. has slowed in recent years. However, it continues to affect the economies in certain countries where the Company does business. The Company continuously attempts to minimize the effect of inflation through cost reductions and improved productivity.

Business Segments

Borden, Inc., as discussed on the previous pages, operates in two major industry segments: the foods segment and the non-food consumer and industrial segment. Corporate departments provide certain centralized services for the Corporation and all operating units. The Company's general offices are located in Columbus, Ohio and its executive offices in New York City. Production facilities are located throughout the United States and in many foreign countries. The Company's operating properties are generally well maintained and effectively utilized.

The foods segment includes the following primary product lines: processed cheese, non-dairy creamer, reconstituted lemon and lime juice, bouillon, instant coffee, sweetened condensed milk, snack foods and cakes, confections, jams and jellies, pasta, seafood, dehydrated soups, homogenized milk, whole milk powder, ice cream and milks, sherbets, yogurt, cottage cheese, frozen novelties, low-fat dairy products, milk-based products for the industrial trade, and fruit drinks. The non-food consumer and industrial segment produces non-food consumer products including wallcoverings, adhesives and caulks, and spray paints. Packaging and industrial products produced by the non-food consumer and industrial segment include transparent wrapping film, synthetic adhesives for the forest products and packaging industries and resins for the foundry industry. The basic chemical products used in the Company's downstream production facilities to produce certain packaging and industrial products are supplied by Borden Chemicals and Plastics Limited Partnership.

As of December 31, 1988, the Company operated 139 domestic food manufacturing and processing facilities in 40 states and Puerto Rico. The most significant of these facilities are the Illinois plant producing Cracker Jack, bouillon and dehydrated soup, the Alabama plant producing Bama jams and jellies and ReaLemon, the Arizona, Minnesota and Massachusetts pasta plants and the snacks and dairy facilities located throughout the country. In addition, the Company operated 44 foreign food and dairy manufacturing and processing facilities located principally in Latin America and Western Europe.

As of December 31, 1988, the Company operated 36 domestic non-food consumer and industrial manufacturing and processing facilities in 19 states, the most significant being the Resinite operations in Georgia, Massachusetts and Texas. In addition, the Company operated 57 foreign non-food consumer and industrial manufacturing and processing facilities located principally in Brazil, Western Europe, Canada and the Far East.

Domestic products for the foods segment are marketed primarily through food brokers and distributors, and directly to wholesalers, retail stores, food service businesses, food processors, institutions and governmental agencies. Domestic products for the non-food consumer and industrial segment are sold throughout the United States to industrial users and, in the case of consumer products, by an in-house and independent sales force to distributors, wholesalers, jobbers and dealers. To the extent practicable, international distribution techniques parallel those used in the United States. However, raw materials, production considerations, pricing competition, governmental policy toward industry and foreign investment and other factors vary substantially from country to country for both industry segments.

Segment operating profit as shown on page 38 is total revenue less operating expenses. In computing segment operating profit none of the following items have been deducted from revenue: general corporate expenses, interest expense and Federal, state and local income taxes. Minority interests in earnings of certain subsidiaries and the Company's equity in earnings of unconsolidated 20% to 50% owned companies have been included in segment operating profit. In 1988, these amounts aggregated \$12,743 for the foods segment and \$33,858, related to the Company's investment in Borden Chemicals and Plastics Limited Partnership, for the non-food consumer and industrial segment. In 1987 and 1986, these amounts were not significant in relation to total segment operating profit.

Identifiable assets by segment are those assets that are used in the segments' operations. Corporate assets are principally cash and cash items.

Total Debt as a Percent of Adjusted Total Capitalization



Business Segments

BORDEN, INC.

(In thousands)		Year Ended December 31	1988	1987	1986
Net Sales	Foods _____		\$5,385,766	\$4,657,306	\$3,364,137
	Non-Food Consumer and Industrial _____		1,857,760	1,857,116	1,637,960
	Total _____		\$7,243,526	\$6,514,422	\$5,002,097
Operating Profit	Foods _____		\$ 479,385	\$ 405,873	\$ 323,017
	Non-Food Consumer and Industrial _____		224,976	208,041	175,943
	Total segments _____		704,361	613,914	498,960
	General Corporate income (expense) _____		(13,175)	(21,015)	(28,601)
	Interest expense _____		(146,604)	(119,643)	(80,147)
	Earnings before income taxes _____		\$ 544,582	\$ 473,256	\$ 390,212
Identifiable Assets	Foods _____		\$3,174,715	\$2,735,755	\$2,068,475
	Non-Food Consumer and Industrial _____		1,106,457	1,121,223	1,398,924
	Total segments _____		4,281,172	3,856,978	3,467,399
	Corporate assets _____		159,154	300,385	114,790
	Total _____		\$4,440,326	\$4,157,363	\$3,582,189
Depreciation and Amortization	Foods _____		\$ 124,887	\$ 79,720	\$ 57,012
	Non-Food Consumer and Industrial _____		44,879	76,243	77,161
Capital Expenditures	Foods _____		\$ 169,889	\$ 127,587	\$ 77,190
	Non-Food Consumer and Industrial _____		60,079	67,829	84,048
Foreign Operations	Net sales _____		\$1,613,624	\$1,158,926	\$ 957,907
	Operating profit _____		156,350	120,844	111,472
	Identifiable assets _____		1,154,099	930,847	674,915



Five-Year Selected Financial Data

BORDEN, INC.

(All dollar and share figures in thousands—except market price, number of common shareholders, average number of employees, and per share statistics)

	For the Years	1988	1987	1986	1985	1984
Summary of Earnings						
Net sales _____		\$7,243,526	\$6,514,422	\$5,002,097	\$4,716,172	\$4,568,018
Income taxes _____		232,700	206,200	166,900	130,700	136,700
Net income _____		311,882	267,056	223,312	193,804	182,082
Percent of net income to sales _____		4.3%	4.1%	4.5%	4.1%	4.0%
<hr/>						
Net income per common share: _____	\$	4.22	\$ 3.62	\$ 3.00	\$ 2.50	\$ 2.26
<hr/>						
Dividends:						
Common share _____	\$	1.49	\$ 1.24	\$ 1.093	\$ 0.987	\$ 0.883
Preferred series B share _____		1.32	1.32	1.32	1.32	1.32
<hr/>						
Average number of common shares outstanding during the year _____		73,919	73,712	74,547	77,532	80,532
<hr/>						
Financial Statistics						
Capital expenditures _____	\$	232,640	\$ 201,773	\$ 163,017	\$ 193,602	\$ 163,751
Inventories _____		654,941	566,177	462,571	423,046	418,740
Property, plant and equipment, net _____		1,387,932	1,194,760	1,443,246	1,296,460	1,214,260
Depreciation and amortization _____		172,870	159,147	137,237	122,651	111,875
Total assets _____		4,440,326	4,157,363	3,582,189	2,932,246	2,767,135
Current assets _____		1,814,323	1,868,958	1,437,470	1,318,734	1,221,729
Current liabilities _____		1,222,612	1,147,117	1,005,338	705,182	781,202
Working capital _____		591,711	721,841	432,132	613,552	440,527
Current ratio _____		1.5:1	1.6:1	1.4:1	1.9:1	1.6:1
Long-term debt _____	\$	1,160,140	\$1,172,095	\$ 845,442	\$ 526,563	\$ 423,413
Total debt to adjusted total capitalization _____		43%	44%	42%	32%	34%
Shareholders' equity _____	\$	1,848,615	\$1,658,849	\$1,438,743	\$1,407,795	\$1,309,604
Liquidating value of preferred stock _____		(299)	(376)	(409)	(494)	(576)
Common shareholders' equity _____		1,848,316	1,658,473	1,438,334	1,407,301	1,309,028
Equity per common share at year-end _____		25.01	22.52	19.54	18.27	16.78
Return on average shareholders' equity _____		17.8%	17.2%	15.7%	14.3%	13.7%
Ratio of earnings to fixed charges _____		4.1:1	4.4:1	4.9:1	4.5:1	4.4:1
<hr/>						
Shareholders' Data						
Outstanding shares at year-end:						
Common _____		73,910	73,653	73,625	77,016	78,023
Preferred series B _____		10	13	14	17	20
<hr/>						
Market price of common stock:						
At year-end _____	\$	59¼	\$ 49½	\$ 46⅞	\$ 34⅜	\$ 21⅞
Range during year _____		61⅞-47⅞	63⅞-30	52½-31¼	35⅞-21⅞	21⅞-16⅞
<hr/>						
Number of common shareholders _____		38,465	40,743	40,474	43,374	43,409
<hr/>						
Employees' Data						
Payroll _____	\$	1,077,800	\$ 815,400	\$ 667,500	\$ 637,300	\$ 608,400
Average number of employees _____		45,400	39,400	33,800	32,700	32,200

Consolidated Statements of Income

BORDEN, INC.

(In thousands except
per share data)

	Year Ended December 31,	1988	1987	1986
Revenue	Net sales _____	\$7,243,526	\$6,514,422	\$5,002,097
Costs and Expenses	Cost of goods sold _____	5,392,791	4,889,890	3,742,193
	Marketing, general and administrative expenses _____	1,196,812	1,020,235	814,224
	Interest expense _____	146,604	119,643	80,147
	Equity in income of affiliates _____	(46,601)	(10,971)	(9,196)
	Other income and expense, net _____	9,338	22,369	(15,483)
	Income taxes _____	232,700	206,200	166,900
		<u>6,931,644</u>	<u>6,247,366</u>	<u>4,778,785</u>
Earnings	Net income _____	<u>\$ 311,882</u>	<u>\$ 267,056</u>	<u>\$ 223,312</u>
Share Data	Net income per common share _____	\$ 4.22	\$ 3.62	\$ 3.00
	Cash dividends per common share _____	1.49	1.24	1.093
	Average number of common shares outstanding during the year _____	73,919	73,712	74,547

See Notes to Consolidated Financial Statements



Consolidated Statements of Cash Flows

BORDEN, INC.

(In thousands)		Year Ended December 31,	1988	1987	1986
Cash Flows From Operating Activities	Net income _____		\$ 311,882	\$ 267,056	\$ 223,312
	Adjustments to reconcile net income to net cash from operating activities:				
	Depreciation and amortization _____		172,870	159,147	137,237
	Net change in trade receivables _____		(67,773)	(40,572)	16,604
	Net change in inventories _____		(48,590)	(76,441)	(2,702)
	Net change in trade payables _____		14,094	46,298	3,816
	Net change in current and deferred taxes _____		(110,769)	17,191	9,376
	Net change in other assets _____		(79,987)	33,639	14,699
	Other, net _____		(71,314)	(87,373)	(29,541)
			<u>120,413</u>	<u>318,945</u>	<u>372,801</u>
Cash Flows From Investing Activities	Purchase of businesses, excluding value of stock issued of \$30,264, \$24,024 and \$9,585 _____		(349,595)	(418,624)	(546,575)
	Capital expenditures _____		(232,640)	(201,773)	(163,017)
	Divestiture of businesses _____		222,024	473,003	209,094
			<u>(360,211)</u>	<u>(147,394)</u>	<u>(500,498)</u>
Cash Flows From Financing Activities	Long-term debt financing _____		118,416	751,925	519,253
	Increase (decrease) in debt payable within one year _____		123,597	(71,163)	41,322
	Reduction in long-term debt _____		(144,319)	(474,326)	(227,675)
	Dividends paid _____		(110,354)	(91,433)	(81,347)
	Acquisition of treasury stock _____		(47,930)	(25,222)	(144,784)
	Issuance of stock under stock options and awards _____		15,440	6,552	9,601
			<u>(45,150)</u>	<u>96,333</u>	<u>116,370</u>
	(Decrease) increase in cash and equivalents _____		(284,948)	267,884	(11,327)
	Cash and equivalents at beginning of year _____		397,626	129,742	141,069
	Cash and equivalents at end of year _____		<u>\$ 112,678</u>	<u>\$ 397,626</u>	<u>\$ 129,742</u>
Supplemental Disclosures of Cash Flow Information:	Interest paid _____		\$ 128,808	\$ 97,482	\$ 74,346
	Taxes paid _____		343,469	189,009	157,524

See Notes to Consolidated Financial Statements

Consolidated Balance Sheets

BORDEN, INC.

(In thousands except share
and per share data)

	December 31,	1988	1987
ASSETS			
Current Assets			
Cash and equivalents _____	\$ 112,678	\$ 397,626	
Accounts receivable (less allowance for doubtful accounts of \$14,652 and \$15,481, respectively) _____	883,924	762,083	
Inventories:			
Finished and in process goods _____	396,809	357,981	
Raw materials and supplies _____	258,132	208,196	
Other current assets _____	162,780	143,072	
	<u>1,814,323</u>	<u>1,868,958</u>	
Investments and Other Assets			
Investments in and advances to affiliated companies _____	39,148	104,121	
Other assets _____	105,619	92,443	
	<u>144,767</u>	<u>196,564</u>	
Property and Equipment			
Land _____	95,080	83,424	
Buildings _____	565,367	495,634	
Machinery and equipment _____	1,839,051	1,586,767	
	<u>2,499,498</u>	<u>2,165,825</u>	
Less accumulated depreciation _____	(1,111,566)	(971,065)	
	<u>1,387,932</u>	<u>1,194,760</u>	
Intangibles			
Intangibles resulting from business acquisitions (net of accumulated amortization of \$70,446 and \$54,904, respectively) _____	1,093,304	897,081	
	<u>\$4,440,326</u>	<u>\$4,157,363</u>	

See Notes to Consolidated Financial Statements



	December 31,	1988	1987
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities	Debt payable within one year _____	\$ 258,261	\$ 125,973
	Accounts and drafts payable _____	584,807	523,812
	Income taxes _____	60,279	199,395
	Other current liabilities _____	319,265	297,937
		<u>1,222,612</u>	<u>1,147,117</u>
Other	Long-term debt _____	1,160,140	1,172,095
	Deferred income taxes _____	192,706	164,160
	Other long-term liabilities _____	12,758	10,131
	Minority interests in consolidated subsidiaries _____	3,495	5,011
		<u>1,369,099</u>	<u>1,351,397</u>
Shareholders' Equity			
	Capital Stock:		
	Preferred stock—no par value		
	Authorized 10,000,000 shares		
	Issued series B convertible—10,354 shares and 13,022 shares, respectively (involuntary liquidating value of \$299 or \$28.88 per share at December 31, 1988) _____	43	54
	Common stock—\$1.25 par value		
	Authorized 240,000,000 shares		
	Issued 100,991,687 shares _____	126,240	126,240
	Paid in capital _____	295,771	288,205
	Accumulated translation adjustment _____	(49,844)	(40,308)
	Retained earnings _____	1,980,241	1,778,713
		<u>2,352,451</u>	<u>2,152,904</u>
	Less common stock in treasury (at cost)—27,082,089 shares and 27,338,882 shares, respectively _____	(503,836)	(494,055)
		<u>1,848,615</u>	<u>1,658,849</u>
		<u>\$4,440,326</u>	<u>\$4,157,363</u>



Consolidated Statements of Shareholders' Equity

BORDEN, INC.

(In thousands)

	CAPITAL STOCK ISSUED					
Three Years Ended December 31, 1988	Preferred Series B	Common	Paid-In Capital	Accumulated Translation Adjustment	Retained Earnings	Treasury Stock
Balance, December 31, 1985	\$71	\$126,240	\$263,537	\$(94,018)	\$1,461,125	\$(349,160)
Net income _____					223,312	
Cash dividends:						
Common stock _____					(81,327)	
Preferred series B _____					(20)	
Translation adjustment for the period _____				14,581		
Stock reacquired for acquisitions and treasury _____						(144,784)
Preferred series B stock converted _____	(13)		(148)			161
Stock issued for exercised options _____			4,880			4,721
Stock issued for acquisitions _____						9,585
Balance, December 31, 1986	58	126,240	268,269	(79,437)	1,603,090	(479,477)
Net income _____					267,056	
Cash dividends:						
Common stock _____					(91,416)	
Preferred series B _____					(17)	
Translation adjustment for the period _____				39,129		
Stock reacquired for acquisitions and treasury _____						(25,222)
Preferred series B stock converted _____	(4)		(62)			66
Stock issued for exercised options _____			3,933			2,619
Stock issued for acquisitions _____			16,065			7,959
Balance, December 31, 1987	54	126,240	288,205	(40,308)	1,778,713	(494,055)
Net income _____					311,882	
Cash dividends:						
Common stock _____					(110,339)	
Preferred series B _____					(15)	
Translation adjustment for the period _____				(9,536)		
Stock reacquired for acquisitions and treasury _____						(47,930)
Preferred series B stock converted _____	(11)		(150)			161
Stock issued for exercised options and award plans _____			7,716			7,724
Stock issued for acquisitions _____						30,264
Balance, December 31, 1988	<u>\$43</u>	<u>\$126,240</u>	<u>\$295,771</u>	<u>\$(49,844)</u>	<u>\$1,980,241</u>	<u>\$(503,836)</u>

See Notes to Consolidated Financial Statements

(In thousands except share and per share data)

1. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company, as summarized below, are in conformity with generally accepted accounting principles.

Principles of Consolidation—The consolidated financial statements include the accounts of Borden, Inc. and its subsidiaries, after elimination of material intercompany accounts and transactions. The Company's proportionate share of the net earnings of unconsolidated 20% to 50% owned companies is included in income. The carrying value of these companies approximates Borden's interest in their underlying net assets. Investments of less than 20% ownership are carried at cost.

Cash and Cash Equivalents/Statements of Cash Flows—In 1988, the Company adopted FASB Statement No. 95, "Statement of Cash Flows." Accordingly, information for 1987 and 1986 has been restated to conform with the 1988 presentation. The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company has determined that the effect of exchange rate changes on cash flows is not material.

Inventories—Inventories are stated at the lower of cost or market. Cost is determined using the average cost and first-in, first-out methods.

Property and Equipment—Land, buildings and machinery and equipment are carried at cost.

Depreciation is recorded on the straight-line basis by charges to costs and expenses at rates based on the estimated useful lives of the properties (average rates for buildings 3.5%; machinery and equipment 7.5%).

Major renewals and betterments are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts.

Intangibles—The excess of purchase price over net tangible assets of businesses acquired is carried as intangibles in the Consolidated Balance Sheets. It is the Company's policy to carry intangibles arising prior to November 1970 at cost until such time as there may be evidence of diminution in value or the term of existence of such value becomes limited. Intangibles arising after October 1970 are being amortized on a straight-line basis generally over a forty-year period.

Income Taxes—The provision for income taxes includes Federal, foreign, state and local income taxes currently payable and those deferred because of timing differences between income for financial statements and income for tax purposes. A substantial portion of the undistributed earnings of subsidiaries, primarily outside the United States, has been reinvested and is not expected to be remitted to the parent company. Accordingly, no additional Federal income taxes have been provided and at December 31, 1988, the cumulative amount of reinvested income was approximately \$427,000.

In December 1987, the Financial Accounting Standards Board issued FASB Statement No. 96 "Accounting for Income Taxes." The Statement requires the use of the liability method of accounting for deferred income taxes and must be adopted no later than first quarter 1990. The effect of adoption may be reported either prospectively in the year of adoption or through restatement of one or more prior years. Because changes and/or interpretations may be forthcoming, the Company has not yet determined when it will adopt FASB Statement No. 96 or whether it will be applied prospectively or retroactively. The effect such adoption will have on the Company's operating results has not yet been determined.

Pension, Retirement Savings and Certain Postretirement

Benefits Plans—Substantially all of the Company's domestic and Canadian employees are covered under one of the Company's pension plans or one of the union-sponsored plans to which the Company contributes. Pension expense is determined pursuant to the provisions of FASB Statement No. 87, "Employers' Accounting for Pensions," which the Company adopted as of January 1, 1986. The Company funds pension costs in accordance with the funding requirements of the Employee Retirement Income Security Act of 1974.

Substantially all domestic and Canadian salaried employees participate in the Company's retirement savings plans. The Company's cost of providing the retirement savings plans represents its matching of eligible contributions made by participating employees and is recognized as a charge to income in the year the cost is incurred.

The Company provides certain health and life insurance benefits for eligible domestic and Canadian retired employees. Retired employees may become eligible for coverage under the provisions of the Company's plans. The cost of providing health and life insurance benefits to retired employees under Company plans is recognized as a charge to income in the year the cost is incurred.

Earnings Per Share—Earnings per common share are computed based on the weighted average number of common shares outstanding.

2. Foreign Affiliates

The financial statements of foreign entities have been translated into U.S. dollars in accordance with FASB Statement No. 52. The principal policies are that assets and liabilities are generally translated at current exchange rates and related translation adjustments are reported as a component of shareholders' equity. For entities in highly inflationary countries a combination of current and historical rates are used in translating assets and liabilities and related exchange adjustments are included in net income.

After translation into U.S. dollars, the Company's proportionate share of net assets of foreign affiliates included in the Consolidated Financial Statements was \$530,000 at December 31, 1988 and \$440,000 at December 31, 1987.

Realized and unrealized net foreign exchange losses aggregating \$35,400, \$33,500, and \$5,300 were charged against net income in 1988, 1987 and 1986, respectively.

3. Debt, Lease Obligations and Related Commitments

Debt outstanding at December 31, 1988 and 1987 is as follows:

	1988		1987	
	Long-Term	Due Within One Year	Long-Term	Due Within One Year
10 $\frac{1}{4}$ % Notes due 1995	\$ 100,000		\$ 100,000	
9 $\frac{7}{8}$ % Notes due 1997	125,000		125,000	
10 $\frac{3}{4}$ % Canadian Dollar Notes due 1993	52,903			
Medium Term Notes, Series A (at an average rate of 7.51% and 7.45%, respectively)	270,000	25,000	295,000	\$ 20,000
Sinking fund debentures: 8 $\frac{3}{4}$ % due 2016	160,000		200,000	
Commercial paper (at an average rate of 7.6% and 7.1%, respectively)	300,000		300,000	
Industrial Revenue Bonds (at an average rate of 8.3% and 8.5%, respectively)	75,078	1,201	73,362	1,063
Other borrowings (at an average rate of 8.7% and 9.5%, respectively)	77,159	17,770	78,733	18,544
Total current maturities of long-term debt		43,971		39,607
Short-term debt:				
Commercial paper (at an average rate of 10.1%)		45,000		
Other (primarily foreign bank loans at an average rate of 10.4% and 10.8%, respectively)		169,290		86,366
Total debt	<u>\$1,160,140</u>	<u>\$258,261</u>	<u>\$1,172,095</u>	<u>\$125,973</u>

During 1988, the Company sold, at approximately par, 10 $\frac{3}{4}$ % Canadian Dollar Notes which mature in 1993. The proceeds were used to partially finance the acquisition of a foreign subsidiary. The Company also refinanced certain foreign borrowings during 1988. During 1987, the Company sold, at approximately par, \$315,000 of Medium Term Notes which are due to mature from nine months to ten years after date of issue, and \$125,000 of 9 $\frac{7}{8}$ % Notes with final maturity in 1997. Proceeds from the sale of the Medium Term Notes were used to repay commercial paper classified as long-term debt at December 31, 1986, and proceeds from the sale of the 9 $\frac{7}{8}$ % Notes were used primarily to repay short-term debt.

At December 31, 1988 and 1987, \$300,000 of outstanding commercial paper has been classified as long-term debt since the Company has both the intent and ability, through its credit facilities, to maintain such amount of debt for more than one year.

Aggregate maturities of long-term debt and minimum annual rentals under agreements classified and accounted for as operating leases at December 31, 1988 are as follows:

	Long-Term Debt	Minimum Rentals on Operating Leases
1989	\$ 43,971	\$38,113
1990	47,906	29,773
1991	65,578	22,243
1992	47,855	12,732
1993	91,777	9,251
1994 and beyond*	907,024	29,905

*Figures represent combined totals for all years.

The average amount of short-term commercial paper outstanding was \$87,000 during 1988 and \$252,000 during 1987, and the average amount of other short-term debt was \$138,000 during 1988 and \$69,000 during 1987. The respective weighted average interest rates for short-term commercial paper and other short-term debt were 8.1% and 14.7% during 1988, and 6.8% and 12.0% during 1987. Maximum month-end borrowings were \$165,000 in 1988 and \$408,000 in 1987 for short-term commercial paper, and \$171,000 in 1988 and \$90,000 in 1987 for other short-term debt. Short-term commercial paper was issued and redeemed on the open market in the United States through a money market dealer.

The Company has a \$300,000 Revolving Note Issuance Facility with a group of banks for the issuance of short-term notes in the Eurodollar market. The Company also has credit agreements of approximately \$265,000 under which it can execute term loans for up to two years. All of the above credit facilities require a commitment fee, bear interest, if used, at approximately the prime rate, or less, and are available to support domestic commercial paper borrowings. Additional unused credit facilities of \$213,000 at December 31, 1988 were available for use by foreign subsidiaries.

The Company has capitalized interest that related to the capital cost of acquiring certain fixed assets. The total interest costs incurred and the portions capitalized were \$148,676 and \$2,072 in 1988, \$122,557 and \$2,914 in 1987 and \$84,717 and \$4,570 in 1986.

4. Income Taxes

Comparative analyses of the provisions for income taxes follows:

	1988	1987	1986
Current			
Federal	\$133,400	\$220,300	\$100,500
State and Local	33,200	44,500	22,200
Foreign	39,300	40,600	29,400
	<u>205,900</u>	<u>305,400</u>	<u>152,100</u>
Deferred			
Federal	13,800	(87,900)	8,500
State and Local	4,000	(15,600)	1,400
Foreign	9,000	4,300	4,900
	<u>26,800</u>	<u>(99,200)</u>	<u>14,800</u>
	<u>\$232,700</u>	<u>\$206,200</u>	<u>\$166,900</u>

The deferred Federal tax provisions in 1988, 1987 and 1986 reflect accelerated write-offs of property and equipment costs, the Federal tax effects of which were \$7,400, \$3,800 and \$10,600, respectively. The deferred tax provisions for 1988 and 1987 also reflect reversals of deferred taxes of \$14,500 and \$88,400, respectively, in connection with the divestiture of the Company's basic chemicals and PVC resins business.

Reconciliations of the differences between the Federal statutory tax rates and consolidated effective book income tax rates are as follows:

	1988	1987	1986
Federal statutory tax rate	34.0%	40.0%	46.0%
State tax provision, net of Federal benefit	4.5	3.7	3.3
Foreign tax differentials	1.4	(0.1)	(0.9)
Investment and energy tax credits	0.1	0.0	(1.1)
Capital gain benefits	0.0	(0.3)	(2.3)
Other—net	2.7	0.3	(2.2)
Effective book income tax rate	<u>42.7%</u>	<u>43.6%</u>	<u>42.8%</u>

The domestic and foreign components of income before income tax are as follows:

	1988	1987	1986
Domestic	\$416,049	\$356,152	\$288,234
Foreign	128,533	117,104	101,978
	<u>\$544,582</u>	<u>\$473,256</u>	<u>\$390,212</u>

5. Operations by Industry Segment

Information about the Company's industry segments and geographic areas of operation is provided on pages 37 and 38 of this Annual Report and is an integral part of the Consolidated Financial Statements.

6. Pension, Retirement Savings and Certain Postretirement Benefits Plans

Pension expense is determined pursuant to the provisions of FASB Statement No. 87 "Employers' Accounting for Pensions," which the Company adopted as of January 1, 1986.

Company charges to operations under the Company's retirement savings plans in 1988, 1987 and 1986 amounted to approximately \$15,500, \$12,700 and \$14,400, respectively. For the Retirement Savings Plan for salaried employees, the Company's matching contribution was 100% in 1988 and 1987 and 120% in 1986 of every dollar of eligible employee contributions. Eligible contributions are 5% for all participating salaried employees and as much as 7% for longer service salaried employees. For the Hourly Savings Plan for hourly non-bargaining employees, the Company's matching contribution was 50% in 1988 and 1987 and 100% in 1986 of every dollar of eligible employee contributions. Eligible contributions are 5% for all participating hourly non-bargaining employees in 1988 and were 2% for participating employees in 1987 and 1986.

For substantially all salaried employees the Company's domestic and Canadian pension plans provide benefits based on the employee's final average compensation and credited service prior to 1988 and career average compensation and credited service after 1987. For hourly employees the plans provide benefits based on specified amounts and credited service.

Following are the components of the net pension credits recognized by the Company for its domestic and Canadian plans:

	1988	1987	1986
Service cost—benefits earned during the period	\$ 9,900	\$ 11,100	\$ 7,300
Interest cost on the projected benefit obligation	37,200	33,600	29,600
Actual return on plan assets	(44,200)	1,900	(61,300)
Net amortization and deferral	(7,200)	(48,100)	19,900
Net periodic pension credit	<u>\$ (4,300)</u>	<u>\$ (1,500)</u>	<u>\$ (4,500)</u>

The primary assumptions used to determine the net periodic pension credits were as follows:

	1988	1987	1986
Weighted average discount rate	9.00%	7.50%	9.50%
Rate of increase in future compensation levels	6.75	5.50	7.00
Expected long-term rate of return on plan assets	10.25	8.50	10.50

Operations were charged approximately \$13,100 in 1988, \$11,900 in 1987 and \$7,000 in 1986 primarily for payments to pension trusts on behalf of domestic employees not covered by the Company's plans and foreign employees.

Most domestic employees not covered by the Company's plans are covered by collectively bargained agreements and are generally effective for periods of from one to three years. Under federal pension law there would be continuing liability to these pension trusts if the Company ceased all or most participation in any such Trust, and under certain other specified conditions. The annual payment of such continuing liability would not normally exceed the annual amount currently being paid to such Trust. The amount of such liability would be determined should the Company withdraw from participation.

The charges to operations for health and life insurance benefits to retired domestic and Canadian employees under Company plans amounted to \$9,400, \$7,800 and \$4,700 in 1988, 1987 and 1986, respectively.

The combined funded status of the Company's domestic and Canadian plans and the amounts included in the Company's balance sheet at December 31, 1988 and 1987 are as follows:

	1988	1987
Plan assets at fair value	<u>\$ 472,200</u>	<u>\$441,300</u>
Actuarial present value of benefit obligations:		
Accumulated benefit obligation (including vested benefits of \$398,200 and \$401,200, respectively)	(429,300)	(425,400)
Effect of projected future compensation levels	(5,500)	(10,600)
Projected benefit obligation	<u>(434,800)</u>	<u>(436,000)</u>
Plan assets in excess of projected benefit obligation	37,400	5,300
Unrecognized prior service cost	(22,300)	(16,400)
Unrecognized loss	28,800	49,400
Unrecognized portion of net asset upon adoption of FASB Statement No. 87	<u>(32,500)</u>	<u>(35,300)</u>
Prepaid pension cost included in other assets	<u>\$ 11,400</u>	<u>\$ 3,000</u>

Plan assets consist primarily of equity securities and corporate obligations. Common stock of the Company accounted for approximately 11% and 10% of the total market value of plan assets at December 31, 1988 and 1987, respectively.

The weighted average discount rates and rates of increase in future compensation levels used in determining the projected benefit obligation were 9.5% and 7.0%, respectively, as of December 31, 1988, and 9.0% and 6.75%, respectively, as of December 31, 1987.

Foreign pension plans are not significant in the aggregate and therefore are not summarized with the domestic and Canadian plans. However, the total of plan assets and accruals approximated the projected benefit obligation as of December 31, 1988 and 1987.

7. Shareholders' Equity

Each of the 10,354 shares of preferred series B stock bears an annual cumulative dividend of \$1.32, is convertible into 3.3 common shares, and is redeemable at the Company's option at \$39. At December 31, 1988, 34,172 common shares were reserved for conversion of preferred series B stock.

During 1986, the Company declared a dividend distribution of one preferred stock purchase right (Right) for each outstanding share of stock. Each Right entitles shareholders to purchase, under certain circumstances, one one-hundredth of a share of Series C Junior Participating Preferred Stock at an exercise price of \$175, subject to adjustment. The Rights may only be exercised if a person or group acquires 20% or more of the Company's common stock or announces a tender or exchange offer for 30% or more of the common stock. The Rights, which do not have voting rights, expire on February 10, 1996 and may be redeemed by the Company at a price of \$.03 1/3 per Right at any time prior to their expiration or the acquisition of 20% or more of the Company's common stock. In November the Company amended the Rights Agreement to extend the period before the Rights become non-redeemable until 10 business days after a public announcement that a party has become a 20% shareholder (previously the Rights were immediately non-redeemable). In addition, the Rights Agreement was amended to allow shareholders to vote on an all-cash offer to purchase all of the Company's shares. A shareholders' meeting may be requested by a bidder who does not hold 5% or more of the common shares and who meets certain requirements.

In the event the Company is involved in a merger or other business combination transaction in which the Company does not survive or in which its common stock is exchanged, each holder of a Right will be entitled to purchase, at the exercise price, that number of shares of common stock of the acquiring company which at the time of such transaction would have a market value of two times the exercise price of the Right.

Following is an analysis of common shares reserved for stock options under the Company's 1974 and 1984 Stock Option Plans as Amended:

	Common Shares Reserved For Stock Options	
	Shares	Price Range
January 1, 1988	1,624,660	\$8.46-58.50
Grants	396,155	55.69
Exercises	(570,154)	8.46-58.50
Expirations or cancellations	(22,731)	10.92-58.50
December 31, 1988	<u>1,427,930</u>	\$8.46-58.50

At December 31, 1988, 1,031,775 options were exercisable. Included with the shares reserved for unexercised

options at December 31, 1988 are 569,648 options with stock appreciation rights attached, which permit the holder the election, in lieu of exercising the option, of receiving cash, shares, or a combination of cash and shares. During 1988, 370,525 stock appreciation rights were exercised.

The Company's 1984 Stock Option Plan as Amended provides for the grant of options to purchase up to 4,850,000 shares of the Company's common stock. The Plan expires in 1993 and no further options may be granted thereafter. At December 31, 1988 and 1987 there were 2,694,858 and 767,082 shares, respectively, available for future grants.

8. Supplemental Income Statement Information

Set forth below is a comparative summary of certain expense items:

	1988	1987	1986
Maintenance and repairs	\$145,444	\$145,956	\$116,871
Depreciation and amortization	172,870	159,147	137,237
Advertising and promotion, including promotions of \$383,998, \$309,678 and \$230,557, respectively	455,187	377,928	285,091
Research and development	26,696	25,041	22,728
Rent	66,630	51,252	38,211

9. Quarterly Financial Data (Unaudited)

1988 Quarters	First	Second	Third	Fourth
Net Sales	\$1,602,311	\$1,783,739	\$1,874,189	\$1,983,287
Gross Profit	388,612	462,316	499,944	499,863
Net Income	52,390	73,717	91,924	93,851
Per share of common stock:				
Earnings	.71	1.00	1.24	1.27
Dividends*	.32	.39	.39	.39
Market Price Range:				
Low	47 1/8	48 3/8	50 3/8	53 1/4
High	57 3/8	55 1/2	54 7/8	61 1/8

*Dividends on preferred series B stock were \$.33 in each quarter during 1988.

1987 Quarters	First	Second	Third	Fourth
Net Sales	\$1,428,459	\$1,601,747	\$1,680,016	\$1,804,200
Gross Profit	322,509	392,413	426,929	482,681
Net Income	44,030	62,715	78,995	81,316
Per share of common stock:				
Earnings	.60	.85	1.07	1.10
Dividends*	.28	.32	.32	.32
Market Price Range:				
Low	46 3/8	52 1/2	55	30
High	59 3/8	63 3/8	63 3/8	58 3/8

*Dividends on preferred series B stock were \$.33 in each quarter during 1987.

10. Acquisitions and Divestitures

During 1988, the Company acquired 24 operations for a total cost of \$379,859 (\$402,498 including debt assumed). The 1988 acquisitions include two dairy operations, four snacks operations, two pasta operations, two seafood specialty operations, a West German bakery, three industrial food service operations, a juices and nectars business, three wallcovering manufacturers, a gravure printing and plastic laminate business and five plastic packaging manufacturers. During 1987, the Company acquired 23 operations for a total cost of \$442,648. The acquisitions include four dairy operations, two snacks operations, three pasta operations, three seafood specialty operations, two West German bakeries, two food flavoring businesses, a bouillon operation, a dehydrated soup operation, two wallcovering distributors and three packaging operations. Acquisitions during 1986, with a total cost of \$556,160, include the Meadow Gold dairies, three pasta operations, a dehydrated soup and pasta manufacturer, a snacks operation, a producer of clam products, a substitute cheese operation, two wallcovering distributors and an industrial resins operation. The acquisitions have been accounted for as purchases, and the excess of cost over fair value of net tangible assets acquired is being amortized on a straight-line basis generally over 40 years.

On November 30, 1987, the Company contributed its basic chemicals and PVC resins business and assets to Borden Chemicals and Plastics Limited Partnership (the Partnership) in exchange for 100% of the Partnership's preference and common units, the general partner interest in the Partnership, and \$148,400 net proceeds from a privately placed debt offering by a subsidiary of the Partnership. Also in 1987, the Company sold all of the preference units in two underwritten public offerings for which it received net proceeds of approximately \$264,100. In December 1988, the Company sold all of its common units of the Partnership in an underwritten public offering for which it received net proceeds of approximately \$137,700. After the sale of the common units, the Company retains an aggregate 2% general partner interest in the Partnership and its subsidiary operating partnership.

During 1988, the Company disposed of 7 operations for approximately \$222,024 in cash. During 1987, besides the sale of Partnership preference units discussed above, the Company disposed of five other operations for approximately \$60,500 in cash. During 1986, the Company divested its Drake Bakery operations and four other operations for approximately \$209,000 in cash and other assets.

11. Commitments

In connection with the 1987 sale of its basic chemicals and PVC resins business to the Partnership, the Company agreed, subject to certain limitations, to provide additional cash to the Partnership, if necessary, to support the payment by the Partnership of its minimum quarterly distribution on all preference units through December 31, 1992. This commitment is limited to an aggregate of approximately \$170,000, subject to reduction under certain circumstances. In connection with the 1988 sale of all common units, the Company also agreed to make direct payments to common unitholders equal to, on a per unit basis, any excess of cash distributed by the Partnership to preference unitholders over that distributed to common unitholders. The total commitment is limited to an aggregate of approximately \$70,000. In addition, a wholly-owned subsidiary of the Company, as general partner, manages and controls the activities of the Partnership and has fiduciary responsibilities to the Partnership's unitholders. The management of the Company believes that any payments pursuant to this commitment or any fiduciary responsibilities will not have a material adverse effect on the financial condition of the Company.

The management of Borden, Inc. is responsible for the preparation of all information, including the financial statements and related notes, included in this annual report to shareholders. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, and include amounts based on the best judgment of management. Financial information included elsewhere in this annual report is consistent with these financial statements.

In recognition of its responsibility for the integrity and objectivity of data in the financial statements, management maintains a system of internal accounting controls. This system includes an organizational structure with clearly defined lines of responsibility and delegation of authority. To assure the effective administration of internal control, employees are carefully selected and trained, written policies and procedures are developed and disseminated, and appropriate communication channels are provided to foster an environment conducive to the effective functioning of controls.

The system is supported by an internal auditing function that operates worldwide and reports its findings to management throughout the year. The Company's independent accountants are engaged to express an opinion on the year-end financial statements. They objectively and independently review the performance of management in carrying out its responsibility for reporting operating results and financial condition. With the coordinated support of the internal auditors, they review and test the system of internal accounting controls and the data contained in the financial statements.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets regularly with independent accountants, management and internal auditors to review the work performed and to ensure that each is properly discharging its responsibilities. The independent accountants and the internal auditors independently have full and free access to the Committee, without the presence of management, to discuss the results of their examinations, the adequacy of internal accounting controls and the quality of financial reporting.

Price Waterhouse

41 South High Street
Columbus, OH 43215

January 31, 1989

Board of Directors and
Shareholders of Borden, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Borden, Inc. and its subsidiaries at December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

R. J. Ventres *L. O. Doza*

R. J. Ventres L. O. Doza
Chairman and Senior Vice President and
Chief Executive Officer Chief Financial Officer

Executive Offices

Borden, Inc.
277 Park Avenue
New York, New York 10172
Telephone (212) 573-4000

Administrative Headquarters

180 East Broad Street
Columbus, Ohio 43215
Telephone (614) 225-4000

Annual Meeting

The Annual Meeting will be held on Friday, April 21, 1989, beginning at 11:00 a.m. in the Hunterdon Theatre, Church Street and Route 31, Flemington, New Jersey 08822

Independent Accountants

Price Waterhouse
41 South High Street
Columbus, Ohio 43215

Transfer Agent, Registrar & Dividend Disbursing Agent

The Bank of New York
90 Washington Street
New York, New York 10015
Telephone 1-(800) 524-4458

Dividend Reinvestment Plan

A dividend reinvestment plan is available to Borden shareholders. Quarterly common stock dividends are automatically reinvested in Borden common stock, and optional cash investments may be made for the purchase of additional shares. No service fees or commissions are assessed for shares purchased under this program.

For more information, write to:

The Bank of New York
P.O. Box 11002
Church Street Station
New York, New York 10277

Form 10-K Report

Borden, Inc. will furnish to any shareholder, without charge, a copy of its most recent annual report on Form 10-K, as filed with the United States Securities and Exchange Commission.

Written requests should be directed to:

Borden, Inc.
Director, Investor Relations
277 Park Avenue
New York, New York 10172

Debenture and Note Trustees

8³/₈% Sinking Fund Debentures
10¹/₄% Notes
The First National Bank of Chicago
Chicago, Illinois 60670

9⁷/₈% Notes
Medium-Term Notes, Series A
The Bank of New York
New York, New York 10015

10⁵/₈% Canadian Dollar Notes
Banque Internationale á Luxembourg S.A.
L-2953 Luxembourg

Exchange Listings

Common Stock (Ticker Symbol-BN)
New York Stock Exchange
The Common Stock is currently listed on exchanges in Tokyo, Japan, and Basel, Geneva, Lausanne and Zurich, Switzerland.

New York Stock Exchange
8³/₈% Sinking Fund Debentures, due 2016
10¹/₄% Notes, due 1995

Luxembourg Stock Exchange
10⁵/₈% Canadian Dollar Notes, due 1993

Japanese Shareholder Service

Organization & Paying Bank
The Yasuda Trust and Banking Company, Limited
Stock Transfer Agency Department
Yasuda Seimei Dai-Ni Building
10-1, Nishi-shinjuku 1-chome
Shinjuku-ku, Tokyo, Japan

Date and State of Incorporation

April 24, 1899 - New Jersey

Non-Food Consumer

Wallcoverings – *Birge, Borden Home Wallcoverings, Crown, Fashion House, Foremost, Guard, James Seeman Studios, Mitchell Designs, Satinesque, ShandKydd, Sunwall 54, Sunwall 27, Sun-Tex, Sunworthy* and *Wall-Tex*

Decorative overlay products

Elmer's glues, cements, building adhesives, caulking compounds, sealants and wood fillers

Krylon spray paints and varnishes; silicones and other lubricants; automotive maintenance and protection products



International:

Brazil – *Alba Cas Cola, Cas Colar* and *Cascoréz* glues and adhesives; *Krylon* car-care products; epoxies, specialty tapes and hobby paints

Canada – *Sunworthy* wallcoverings; *Elmer's* glues and other products; *Krylon* spray paints and other products; car-care products

Colombia – *EGA* glues and adhesives; car-care products; paints and coatings; shoe polish; household waxes and cleaners

Ecuador – *Elmer's* glues and adhesives; car-care products; household waxes; shoe polish

France – *Heller* plastic model kits

Japan – Car-care products

United Kingdom – *Crown* and *Storeys* wallcoverings; *Humbrol* and *Airfix* plastic model kits

West Germany – *Borges* wallcoverings

Films and Adhesives

ALpHASET, Betaset and other foundry resins; refractory coatings

Casco, Cascophen, Cascoset and other specialty adhesives

Forest products resins

Industrial coatings and resins

Loadmaster and *Resinite* pallet-wrap films

Proponite packaging film

Resinite and *Sealwrap* food-wrap films

International:

Film products – Belgium, France, Netherlands, Spain and United Kingdom; Canada and Mexico; Argentina and Brazil; Australia and Japan

Forest products resins – Spain and United Kingdom; Canada; Argentina, Brazil, Colombia and Ecuador; Australia, Malaysia and Philippines

Foundry resins – France, Spain and United Kingdom; Argentina and Brazil; Australia and Japan

Rigid plastic packaging – France, Netherlands and United Kingdom

Specialty adhesives – Brazil, France and United Kingdom





IF IT'S BORDEN-IT'S GOT TO BE GOOD



BORDEN, INC. 277 PARK AVENUE NEW YORK, NY 10172